NABISCO, INC.

GALL...
GRIFFIN & SONS LIMITED LO...
INDUSTRIAS NABISCO CRISTAL, ...
NABISCO LIMITED WELWYN GARDEN CITY, ENGLAND CO...
NABISCO PTY. LIMITED MELBOURNE, AUSTRALIA COOKIES, C...
ARBONA HERMANOS MAYAGUEZ, PUERTO RICO COOKIES AND CRACKERS
COMPANIA NACIONAL de GALLETAS NABISCO–LA FAVORITA, C.A. CARACAS, VENEZUE...
NABISCO FAMOSA, S.A. MEXICO CITY, MEXICO COOKIES, CRACKERS AND PASTA
OXFORD BISCUIT FABRIK, A/S HJOERRING, DENMARK COOKIES AND CRACKERS
PYOTT LIMITED PORT ELIZABETH, SOUTH AFRICA COOKIES AND CRACKERS
S.A. des BISCUITS BELIN EVRY, FRANCE COOKIES AND CRACKERS
SAIWA S.p.A. GENOA, ITALY COOKIES, CRACKERS AND CANDIES
TAMARA, C. por A. SANTO DOMINGO, DOMINICAN REPUBLIC COOKIES AND CRACKERS
YAMAZAKI-NABISCO CO., LTD. TOKYO, JAPAN COOKIES AND CRACKERS
FRED W. AMEND CO. DANVILLE, ILLINOIS CANDIES
FREEZER QUEEN FOODS, INC. BUFFALO, NEW YORK FROZEN FOODS
ASSOCIATED PRODUCTS, INC. NEW YORK, NEW YORK HOUSEHOLD ACCESSORIES AND PET FOOD
NABISCO CONFECTIONS, INC. CAMBRIDGE, MASSACHUSETTS CANDIES
B. SPRENGEL & CO. HANNOVER, GERMANY CANDIES
CHRISTIE, BROWN AND COMPANY LIMITED TORONTO, CANADA COOKIES, CRACKERS AND CEREAL
THE J.B. WILLIAMS COMPANY, INC. NEW YORK, NEW YORK PHARMACEUTICALS, TOILETRIES AND HOUSEHOLD ACCESSORIES
GALLETAS ARTIACH, S.A. BILBAO, SPAIN COOKIES AND CRACKERS
GRIFFIN & SONS LIMITED LOWER HUTT, NEW ZEALAND COOKIES, CRACKERS AND CANDIES
INDUSTRIAS NABISCO CRISTAL, S.A. MANAGUA, NICARAGUA COOKIES AND CRACKERS
NABISCO LIMITED WELWYN GARDEN CITY, ENGLAND COOKIES, CRACKERS AND CEREAL
NABISCO PTY. LIMITED MELBOURNE, AUSTRALIA COOKIES, CRACKERS AND CEREAL
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...AL de GALLETAS NABISCO–LA FAVORITA, C.A. CARACAS, VENEZUELA COOKIES AND CRACKERS
...MEXICO CITY, MEXICO COOKIES, CRACKERS AND PASTA
...MARK COOKIES AND CRACKERS
...OKIES AND CRACKERS

1977 Annual Report

International food products

Financial Highlights

Table of Contents

(In millions except per share data)

	1977	1976	% Change
Net Sales	**$2,073.3**	$1,973.9(1)	5.0
Income From Continuing Operations	**103.9(2)**	82.2(3)	26.4
Income Per Share From Continuing Operations	**6.47(2)**	5.14(3)	25.9
Net Income Per Share	**4.86(2)(4)**	4.82(3)	.8
Dividends Declared Per Share	**2.52**	2.40	5.0
Shareholders' Equity Per Share	**30.35**	27.96	8.5
Average Shares Outstanding	**16.05**	15.98	.4
Working Capital	**287.4**	235.8	21.9
Current Ratio	**2.06:1**	1.82:1	
Capital Expenditures	**55.2**	54.1	2.0
Total Assets	**1,063.3**	1,058.5	.5
Return on Shareholders' Equity	**16.7%**	18.0%	

(1) *Restated to reflect Aurora Products Corp. as a discontinued line of business.*
(2) *Includes a nonrecurring gain of $11.5 million or $.72 per share for the termination of XOX-Nabisco GmbH in West Germany.*
(3) *Includes a nonrecurring gain of $2.0 million or $.12 per share from the sale of an interest in a cosmetics affiliate in South America.*
(4) *Includes a nonrecurring loss of $23.7 million or $1.48 per share for the disposal of Aurora Products Corp.*

Nabisco, Inc., a worldwide consumer products company, is best known as a manufacturer of quality cookies, crackers, and snack products. Important brand names include *Premium* Crackers, *Ritz* Crackers, *Oreo* Cookies, *Chips Ahoy* Cookies, *Dromedary* dates and pimientos, *Nabisco* Shredded Wheat and *Cream of Wheat* Cereals. Confectionery products such as *Chuckles* candies, and pet foods under the *Milk-Bone* label are produced by Nabisco. The Company also produces food products keyed to international tastes and local market requirements.

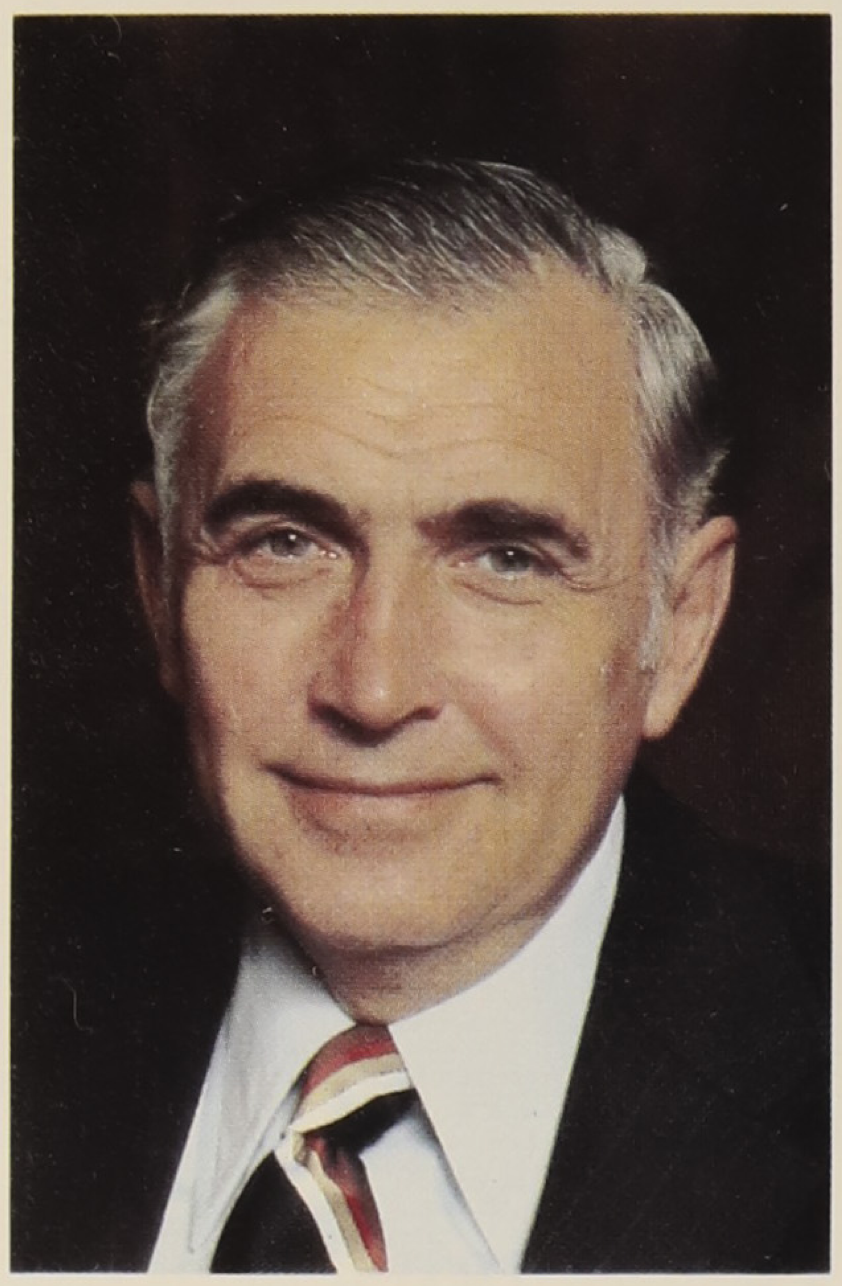
In the nonfood product lines, popular brands of toiletry and pharmaceutical products include *Aqua Velva, Rose Milk, Geritol* and *Sominex.* Household accessories, such as *Hygiene* shower curtains and *Everlon* knitted curtains and draperies, are also produced.

The Company ranks among the nation's 150 largest industrial companies and markets its consumer products in more than 100 countries. Nabisco employs approximately 43,000 people at some 80 major plants and facilities around the world.

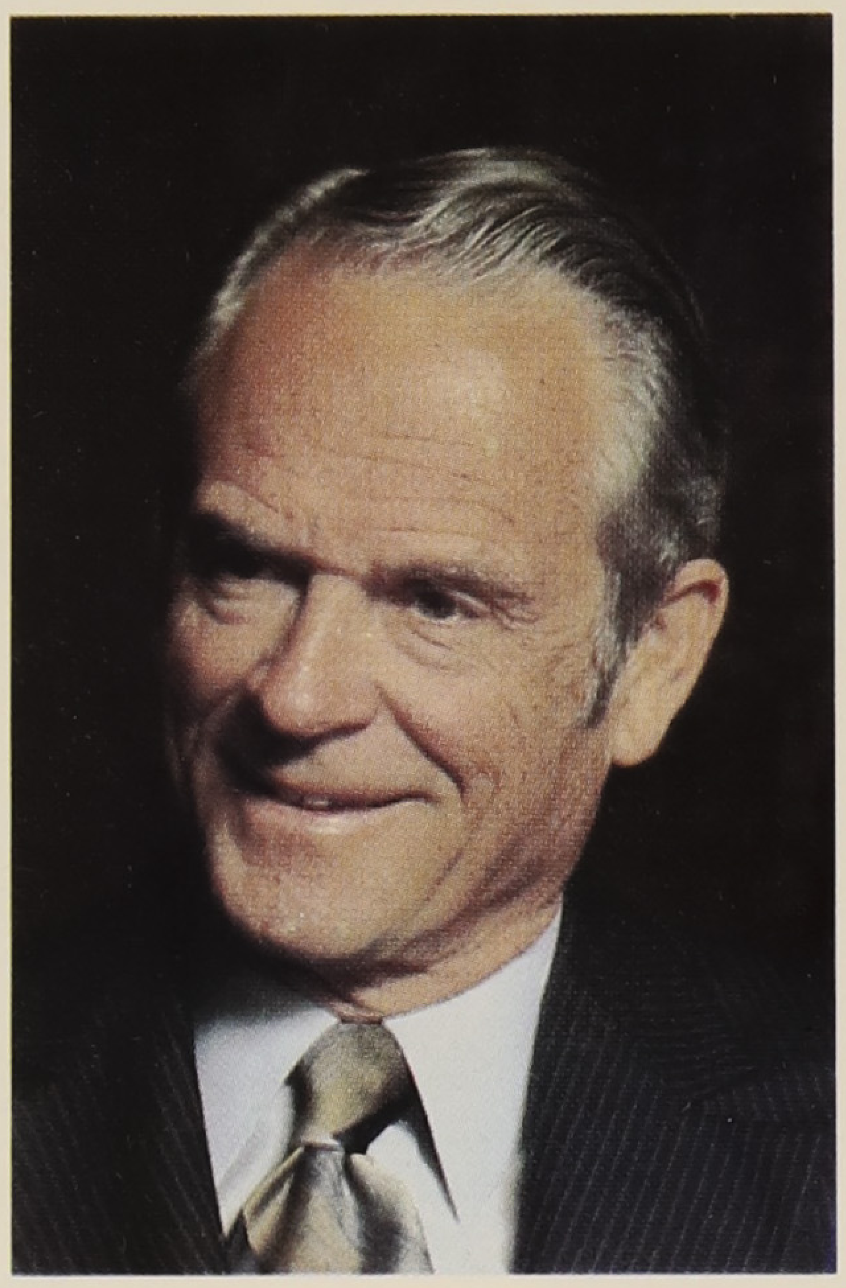
Notice of Annual Meeting

The annual meeting of shareholders will be held at 2 p.m. on Monday, May 1, 1978, in the Trianon Ballroom of the New York Hilton Hotel, 1335 Avenue of the Americas, New York, New York.

To Nabisco Shareholders



Robert M. Schaeberle, Chairman



Val B. Diehl, President

We are pleased to report to our shareholders that Nabisco's sales and earnings attained record levels in 1977. Not only did these results reflect the continued growth in our many lines of business, but significant steps were taken to assure future success. During 1977, management initiated action to dispose of operations in two unprofitable areas: the biscuit and cracker subsidiary in West Germany, XOX-Nabisco GmbH, and Aurora Products Corp., the toy and game subsidiary. As a result, we have established a new and higher level of profitability for Nabisco. We believe, therefore, that 1978 should see the continuation of record results.

The Year in Review

Sales in 1977 were $2.07 billion, up 5% from $1.97 billion for 1976, restated to exclude Aurora Products Corp.

Net income was $4.86 per share up from $4.82 per share reported in 1976. The record 1977 earnings were achieved despite a nonrecurring charge of $.76 per share, related to the estimated write-down of the Company's investment in Aurora Products Corp., partially offset by an estimated gain on the termination of XOX-Nabisco GmbH. After excluding unusual and nonrecurring charges and credits from both years, the gain in earnings year-to-year was about 20%.

Nabisco's emphasis during the past year was on increased productivity and greater profitability, along with the development of products having the most promise of success.

U.S. food operations reported record sales and operating results for 1977. The Biscuit Division—Nabisco's largest business unit—reported a slight improvement in operating results but closed the year on a very strong note. Record sales and earnings were registered by both the Special Products Division and the Food Services Division.

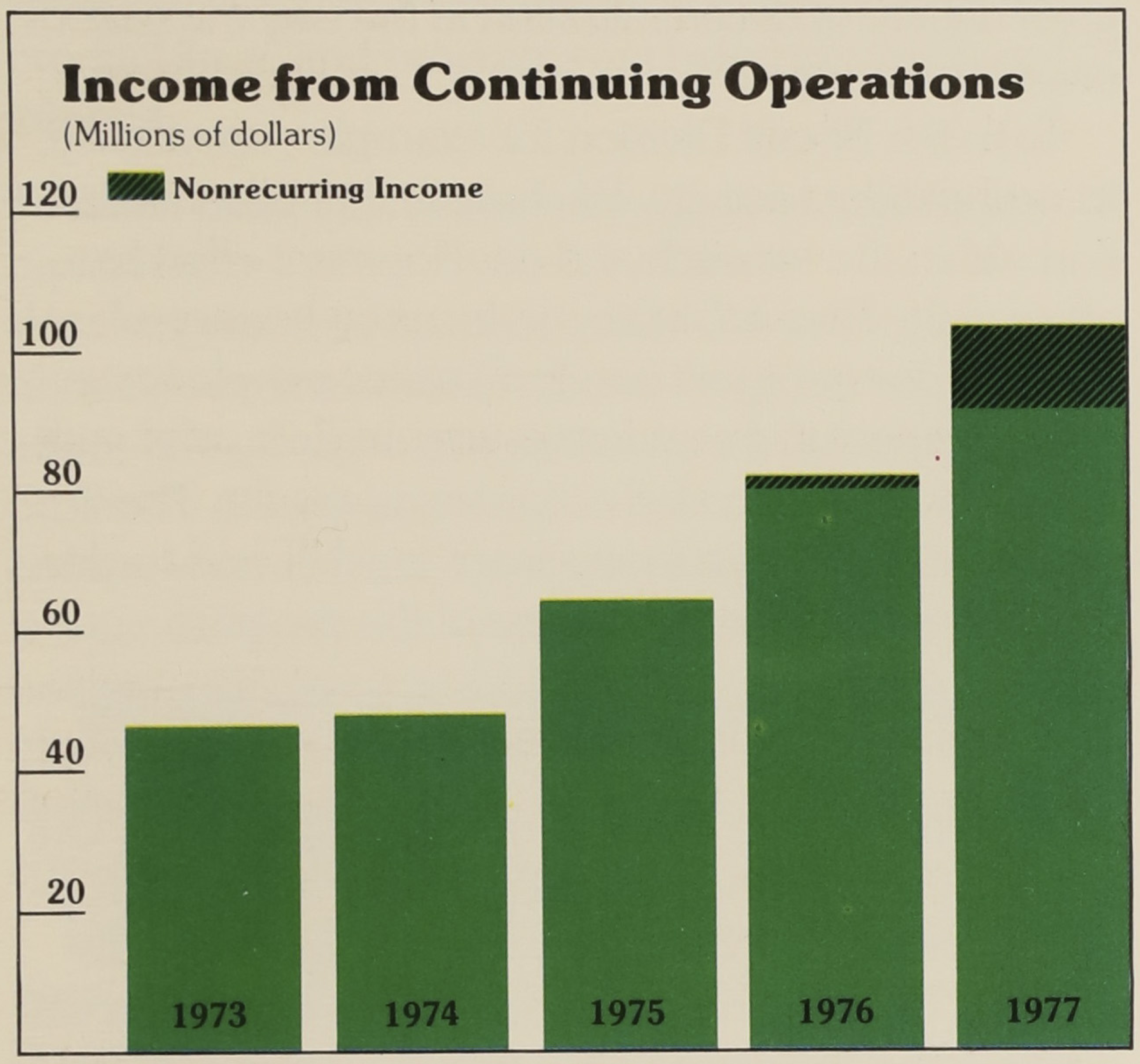
International food operations showed strong sales and profit gains during the year. Our European companies experienced especially good results. Operations in France, England and Italy benefited from new-product introductions, and B. Sprengel, the West German chocolate company, showed substantial profit improvement. Nabisco's joint venture in Japan continued to turn in an outstanding performance, with strong increases in both sales and earnings.

The toiletries and pharmaceuticals product line registered a solid volume increase during 1977. However, due to higher marketing costs related to new-product introductions, operating profit remained at year-earlier levels.

The Company's household accessories business rebounded from a soft market in 1976 to show substantial sales and profit gains for the year.

Dividend Increase and Stock Split

Nabisco's 1977 performance, and our enhanced expectations for the years ahead, were recognized by the Board of Directors at the January 30, 1978 meeting. At that time, the Board declared an increase in the quarterly dividend to $.69 per share from $.63 per share. This brings the current indicated annual rate on the present shares outstanding to $2.76 from the $2.52 rate formerly in effect.



The Board also voted to recommend to Nabisco shareholders a two-for-one stock split. Shareholders will be asked to approve the increase in authorized shares at the Annual Meeting of Shareholders, May 1, 1978. It is believed that this action will serve to broaden the market for the Company's common stock.

Nabisco has paid continuous quarterly dividends since 1899.

Board and Management Changes

Two new members of the Board of Directors were recently elected. In December, the Directors elected William C. Turner, former U.S. Ambassador and Permanent Representative to the Organization for Economic Cooperation and Development in Paris. In January, Charles E. Hugel, President and Chief Executive Officer of The Ohio Bell Telephone Company, was elected. We welcome Messrs. Turner and Hugel to Nabisco's Board of Directors and know their knowledgeable counsel and guidance will be valuable assets in our Company's future.

Effective with our annual meeting in May 1978, Berford Brittain, Jr., Don G. Mitchell and James O. Welch will retire from the Board of Directors. These gentlemen have served the Corporation and its shareholders with distinction, and we wish to express our deep appreciation to them for their significant contributions over the years.

A number of executive changes that will strengthen the Corporation for the future have been made. A detailed description of new appointments to top-level positions is in the Review of Operations of this Annual Report.

The Future

We truly believe that Nabisco is in a period of great opportunity. Our planning activities subject all our operations to the acid test of performance in both sales and profit growth. We have set specific goals for the Corporation and each profit center. Our strategies are developed to assure that we reach these goals through the efficient allocation of people and resources.

On the following two pages, we have taken the opportunity to express in greater detail, our thoughts on how Nabisco is responding to the challenges of the 70s.

Our name, Nabisco, stands for quality and that has been the cornerstone of the Company's success over the years. We plan to maintain and build upon that reputation, and we wish to thank our loyal employees around the world for their dedication to Nabisco and its future.

R M Schaeberle　　Val B. Diehl

Robert M. Schaeberle,
Chairman

Val B. Diehl,
President

January 30, 1978

A Discussion with Nabisco's Chairman and President

How would you characterize Nabisco's management style?

Our management style relates to our values and the way we treat people at Nabisco. We think we merit high marks for the consideration we give employees and the kind of informal, frank, honest way that we have of working together. We believe we have developed a good sense of teamwork.

People are the key to any corporation's success—to have the right people in place and then to fully utilize their talents. Our whole thrust is to identify capable people in the organization and move them around over a period of time to give them the proper experience to become top-notch managers. In certain instances where we feel that we do not have sufficient in-house talent, we bring in people from the outside.

Can you elaborate on the actions the Company took in 1977 with regard to XOX-Nabisco GmbH and Aurora Products Corp.?

In mid-1977, we ceased operations at our West German biscuit and cracker subsidiary, XOX-Nabisco GmbH. This operation has had a negative impact for several years; profitability was too far in the future to allow us to continue committing our resources to it. Reluctantly, in part because it meant job losses for employees, we closed the business. We believe this action was in the best interests of the Company and its shareholders.

In the case of Aurora Products Corp., Nabisco's toy and game subsidiary, we had experienced many years of losses. In May of 1977 we eliminated certain unprofitable lines so that we might concentrate management's efforts on the Model Motoring business. Then, in November of that year, we entered into an agreement in principle to sell substantially all of the assets of the business.

There seems to be a heightened level of activity at Nabisco. What's the reason behind it?

We believe Nabisco's people are responding to the responsibilities and authority that have been given to them. Under our management structure, there is a great degree of decentralization in the way the various divisions are run.

Take the Biscuit Division for example—specifically, its new-product activity. We believe that decentralization within the research and development effort has allowed the Biscuit Division to focus on its particular product-development needs. Creative people have been given a lot of autonomy, responsibility and authority—and are rewarded according to results. The recent list of successful new snack cracker and cookie products speaks for the success of this program.

What's the strategy for growth over the next five years?

The Company is in a period of great opportunity. Our future calls for further expansion into consumer products and services, particularly the marketing and distribution of brand-name products. This expansion will continue to take place both within the United States and abroad. We will also continue to put a substantial amount of both time and effort into the research and development of new products.

Looking ahead, how will Nabisco be different than it is today?

Well, the operating divisions will be of larger size. In addition to the current lines of business, there will be some new major divisions in businesses that are not in Nabisco's operating structure today. The changes will develop internally over an extended period of time as well as through an active corporate acquisition program.

What is Nabisco's posture on nutrition?

Nutrition stands high on our list of priorities. Traditionally, Nabisco's reputation has been one of supplying quality food with a pleasurable taste. Most of our products already deliver good nutrition. Nutritional

value must play an even greater role throughout our product lines, and programs are being implemented to this end.

To what extent is Nabisco involved in legislative concerns?

We recognize that the political climate affects our economic and social environment in large measure. It affects all our major corporate objectives including our profitable growth and product development. Thus, the preservation of our democratic and economic system is essential to the interests of our employees, shareholders, customers and suppliers. It is the responsibility of all citizens to take an active role in the affairs of government; to neglect to do so is to risk the inevitable consequences of indifference.

During the past year, Nabisco has taken active positions, both in Washington, D.C., and at state capitals, on more than 20 items of legislation directly affecting the Company. These range widely from the wheat users' tax and energy amendments, to the various state laws dealing with packaging and labeling requirements.

What is Nabisco's record in the hiring and promoting of women and minorities?

Nabisco is an equal opportunity employer that seeks in good faith to comply with all equal employment laws and programs.

We believe that our equal opportunity programs compare favorably with those in our industry and business as a whole. The percentage of women and minorities holding management and supervisory positions has increased significantly over the past decade.

Nabisco has employed consultants to work with key managers to make our programs successful. A program called Affirmative Action, Accountability and Answers for Managers has been developed to educate them to recognize and avoid possible questionable practices. Nearly 2,000 of Nabisco's managers and supervisors have completed this program.

What is Nabisco's energy concern for the future?

The energy situation is crucial to Nabisco, as it is to the nation. The Company established a Corporate Energy Department during this past year. It has the responsibility to centralize both corporate and divisional energy programs and goals on a worldwide basis, advising as to the technology and equipment that should be acquired for more efficient energy use. This approach allows the Company to attack the energy problem from a strong, centralized position.

The initial emphasis is on the assurance of adequate supply for the immediate future. Direct wellhead gas supply arrangements, an already successful energy conservation program, and a new planning and supply program are moving us ahead in that direction. Specifically, the Corporate Energy Department has assisted operating units in installing back-up fuel supplies at various locations, in converting boilers so that alternate fuels can be utilized, and in reviewing the possibility of longer-term purchasing contracts with energy suppliers to reduce the consequences of severe price changes. For the long term the department is reviewing conservation methods to reduce consumption, and identifying and developing new technologies that use less energy but allow the same or increased output.

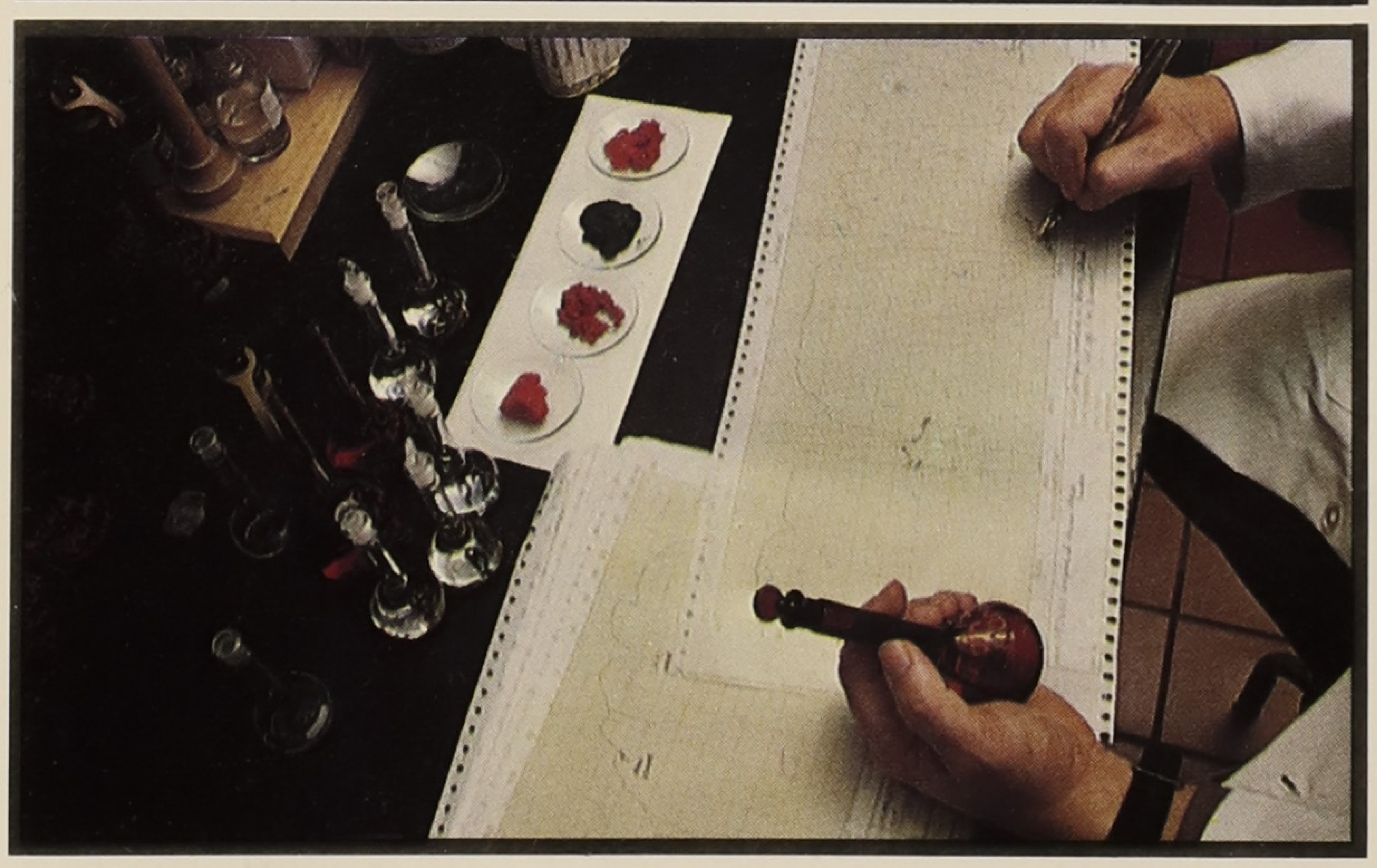
As technology becomes more important to productivity improvements, how is Nabisco relating technology to its needs and processes?

Nabisco's Corporate Technology Department plans and develops strategies related to technical application, productivity improvement and energy management.

New processing equipment is being installed to meet the needs of increased productivity, improved process control and multiple energy sources. A technical exchange program among our domestic divisions and international associated companies continually updates our information as we evaluate and apply new technology throughout our processing installations.

Research

After the brainstorming of a new product idea comes the planning and cooperation necessary to get it to the marketplace. At Nabisco, research and development are the first ingredients we put into all new products.



Nabisco's Research Center at Fair Lawn, New Jersey.

In addition to new-product development, research efforts have been expanded to consider issues raised by consumer groups and regulatory agencies. The need to meet these challenges requires that Nabisco continually increase the analytical monitoring of raw materials and finished products.

One exciting area is applying new nutrition knowledge as it becomes available to our products. Nabisco specializes in making nutrition taste good—increasing nutritional content while maintaining consumer acceptability.

Review of 1977 Operations

United States Food

(Dollars in millions)	**1977**	1976	% Change
Sales	**$1,310.1**	$1,240.6	5.6
Operating Income	**190.5**	178.6	6.7

The United States food operation again reported record sales and earnings in 1977. The largest of Nabisco's business segments, it consists of the Biscuit, Special Products, Food Services and Confectionery Divisions, and Freezer Queen Foods, Inc.

Biscuit Division

The Biscuit Division completed another record sales year in 1977. Profits for the year were slightly ahead of year-earlier levels, with fourth-quarter earnings up substantially over 1976. The division increased its market share during the year due to a continuation of strong marketing efforts, successful new-product introductions and effective media support, all of which contributed to the good performance. Under the pressure of higher costs for certain ingredients, particularly cocoa and shortening, it was necessary to raise prices on some of our products to cover certain costs, while offsetting other cost increases by greater efficiencies in production. A strong upsurge in productivity came from our newest bakery in Richmond, Virginia during 1977. Much of the productivity improvement relates to innovations in machinery and equipment which in the near future will be used in many of our other facilities.

With a very strong base in traditional markets and a growing snack foods business, the outlook for the Biscuit Division is excellent.

Cookies and Crackers

Successful new product introductions during 1977 were Bacon 'n Dip Snack Crackers, Cheese Swirls Parmesan Snack Crackers as well as Raisin Sugar Cookies.

The Biscuit Division plans a record number of new-product introductions in the U.S. marketplace during 1978. *Chippers,* a potato-based cheese snack cracker, was introduced in February and Dixies Drumstick, which has a unique shape and chicken-barbecue flavor, is scheduled for introduction later in 1978. Four new sweet items to be introduced during the year include Vanilla-Vanilla and Fudge-Fudge Creme Sandwich Cookies, as well as Apple Crisp and Peanut Brittle Cookies.

To support these new products and our established product lines, the division has increased media advertising expenditures over the past several years. Heavy emphasis has also been placed on market research, trade promotional allowances, consumer coupons, point-of-sale material, and other related merchandising techniques.

The Biscuit Division has an important share of market in all of the many cookie and cracker product categories in which it competes. For example, the *Premium* Saltine Cracker is the leader in the flaked soda crackers category. *Ritz* Crackers, *Oreo* Creme Sandwiches, *Fig Newtons* Cakes, *Chips Ahoy* Chocolate Chip Cookies, *Wheat Thins* Crackers, *Triscuit* Wafers and many more brands have earned a leadership position with their millions of loyal consumers.

Snack Foods

In addition to its well-established cookie and cracker business, the Biscuit Division is also expending important new efforts in the growing snack food market. Nabisco has been test marketing extruded snacks in new attractive flexible packaging, and merchandising them in separate locations away from the biscuit and cracker departments of grocery stores. These include such products as *Flings* Curls, *Chipsters* Potato Snacks, *Diggers* Corn Snacks, *Korkers* Corn Twists and the *Mister Salty* line of pretzels. The division's goal is to achieve national distribution of its snack foods line along with innovative new entries by the end of 1978.

Special Products Division

The Special Products Division manufactures and sells a variety of quality food products, including hot and cold cereals, pet foods, dates, pimientos and cake mixes. Sales and earnings for this division in 1977 reached record levels, and further gains are expected for 1978.

A major effort of this division during the year was an acceleration of marketing programs including a significant increase in advertising expenditures.

Cereals

In ready-to-eat cereals, the Company's best known products are *Nabisco* Shredded Wheat, *Spoon Size*

Purchasing

You need a sharp eye for quality when you buy over 25 million bushels of wheat a year. At Nabisco, we've had over 75 years of experience to develop ours.

Bill Bohan (right), Nabisco's principal grain buyer, involved in the purchase of wheat from Daniel Walski (left), operator of a chain of grain elevators in Northwestern, Ohio.

How big will the wheat crop be this year? How has rainfall affected the fig supply? Will new legislation raise the price of sugar?

These are the kinds of questions faced every day in our Purchasing Department, as its experts go into the marketplace to buy raw materials. The largest single commodity purchased is wheat, and it is not uncommon to purchase 250,000 bushels on a single contract. We are also able to store substantial quantities of wheat, which enables us to take advantage of favorable market situations.

We mill about 95% of our domestic flour requirements. Our new Toledo, Ohio mill, in full scale operation in 1977, is the largest of its kind in the country. It can process over 55,000 bushels of wheat per day and can store up to six million bushels in its four large grain elevators.

Shredded Wheat, *Nabisco* 100% Bran Cereal, and *Team* Flakes.

Spoon Size Shredded Wheat received increased marketing support, emphasizing that it is made from 100% natural whole wheat with no sugar added. The marketing emphasis on *Team* Flakes has been on expanding consumer awareness of this unique product that blends four grains in a cereal flake.

In hot cereals, emphasis on the value and nutritional aspects of *Cream of Wheat* products resulted in sales gains. Variations in the flavor and convenience features of the *Mix 'n Eat Cream of Wheat* line are part of the division's new-product development efforts.

Pet Foods

Milk-Bone Brand Dog Biscuits maintained its market leadership position during 1977, and a new beef-flavored variety was successfully introduced on a national basis. We expect a continued expansion of consumer demand for these kinds of dog treats and new product introductions are planned. *Rival* dog food, our canned main-meal product, had disappointing results in a depressed total market due to heavy competitive pressures from dry and semi-moist main-meal products. Steps taken during the year included a reformulation of the Tasty Chunk dinner line and a redesign of all packaging labels.

Blue Mountain pet food products—a division of our subsidiary, the Associated Products Company—consist of both canned main-meal and dry dog and cat food. A regional operation, the *Blue Mountain* name is well-known throughout the Pacific Northwest. Sales increased during 1977 as a result of increased promotional activity and new product introductions although operating profits were lower. New products include a natural "no additives" canned dog food.

Dromedary

Sales and operating profits for the *Dromedary* line of dates, pimientos and cake mixes continued to improve in 1977. The *Dromedary* product line has significant market share, primarily in dates, where the *Dromedary* brand name is well recognized for product quality.

Confectionery Division

Nabisco's Confectionery Division is the market leader in the United States in sales of jellies—*Chuckles;* miniature mints—*Junior* Mints; and caramels—*Sugar Daddy, Sugar Mamma,* and *Sugar Babies.* An important element of this division's business is the production of high-grade chocolate supplied to independent quality candymakers as well as to our own Biscuit Division.

Unprecedented high prices for cocoa beans and other cost increases resulted in higher prices to the consumer who reacted by decreasing purchases. In spite of this atmosphere, the division did improve its market share notwithstanding slightly lower unit volume. Profitability, however, fell below year-earlier levels.

Freezer Queen Foods, Inc.

Freezer Queen, a processor of frozen meat entrees, had lower operating results during 1977. Strong price competition continued to make it difficult to offset increased labor and energy costs. To overcome this, a major reorientation of the division is underway, highlighted by a strengthened management group. A new and improved frozen meat entree product line is under development as well as other new lines.

Food Services Division

Food Services was the fastest growing of Nabisco's U.S. food operations. Sales and operating income were again at record levels despite a slow start due to the difficult weather conditions in January and February that forced many restaurant closings and also restricted product deliveries.

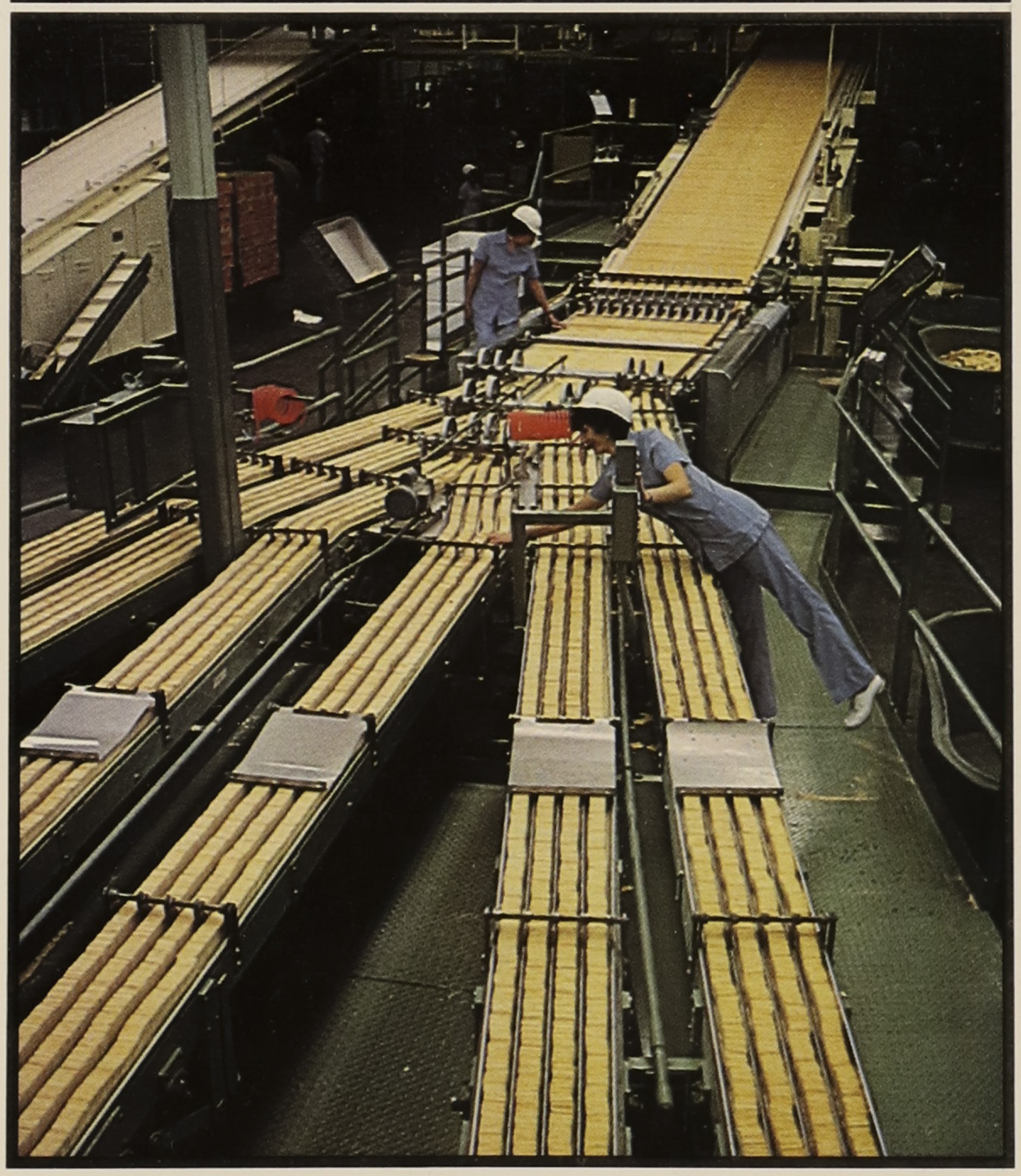
Much vitality is evident in the food service industry, which has great potential for Nabisco's cookie, cracker and snack products. We have become an important supplier of these and related products to the division's primary customers, large food-service distributors.

The 1977 performance was enhanced by a new approach allowing the division to more fully develop the health care, lodging, airline and student feeding markets. Positive results were also achieved in the development of multiunit restaurant sales.

1977 was a year of recovery for the vending industry, which also plays an important part in Nabisco's food service operations. Nabisco has coupled new-product introductions with high levels

Operations

In the past five years, Nabisco has been developing new automated baking systems, and we are using computers to make our products even better tasting!



Nabisco's newest facility in Richmond, Virginia houses the most modern baking production lines and an automated warehouse.

The Biscuit Division's newest facility at Richmond represents the latest techniques in mass production baking.

Raw materials and ingredients are stored in the tower end of the bakery, where automatic mixing begins. Then the production process continues in a straight line, through baking and packaging, to the distribution center. Much of this automatic equipment was designed and built by Nabisco. A computerized *Nilla* Wafer line, for example, is a major departure from traditional processes and employs computerized equipment to assure product perfection.

The technology used there can be transferred to other baking facilities, effecting still greater operating efficiencies.

of promotional activity. Unique merchandising programs assisted sales and increased product visibility in vending machines throughout the country.

International Food

(Dollars in millions)	**1977**	1976	% Change
Sales	**$547.4**	$539.6	1.5
Operating Income	**26.8**	19.2	39.4

International food operations performed well in 1977. Higher sales and significantly higher operating profits were recorded despite the divergent economic and political trends within the many complex markets outside the United States. The investment in people, new product lines and operating plants made in recent years has resulted in profitable, growing companies.

Europe

The European market is the largest within our international operations, with sales approximating one-half of the total. During 1977, the European companies experienced improved sales and profit trends, with good results in France, England and Italy.

Sales and operating profits of Biscuits Belin, our French company, were excellent across the entire product line. Marketing efforts were stepped up significantly. A new snack food, *Feuillete,* a pastry-like cheese cracker, has been well received by the French consumer. *Pepito,* the largest-selling Nabisco cookie in France, is now being exported to five other European countries. Selling *Pepito* successfully in different international markets represents the kind of flexibility that is one of the strengths of Nabisco's worldwide operation.

1977 represented one of the most successful years for Nabisco Ltd. in the United Kingdom. Both the cereal and cracker lines showed strong growth. A new wheat-germ enriched cracker, *Hovis,* is proving to be the most successful new product launched in the biscuit operations in England since the introduction of *Ritz* Crackers in 1961. The Company is expanding production capabilities in order to meet the demands for this new product. *Shreddies,* one of the leading ready-to-eat cereal brands in the United Kingdom, is showing renewed strength due to new and innovative marketing efforts.

Our company in Italy, Saiwa, showed improvement in both sales and operating income in 1977, sparked by the success of *Premium* Saltine Crackers. An addition to our production facility outside Milan will be in operation during 1978 and will provide further capacity to grow.

In West Germany, management closed down its biscuit company, XOX-Nabisco GmbH, in mid-year because of continuing operating losses. B. Sprengel & Co., Nabisco's other business in West Germany, manufactures high-quality chocolate candy. Despite record high prices for cocoa, new management at Sprengel has been successful in showing an operating improvement.

Our businesses in Denmark, Oxford Biscuit Fabrik, and in Spain, Galletas Artiach, recorded somewhat lower operating income during 1977. Oxford Biscuit has a strong market position, a considerable export business, and has developed a total Scandinavian strategy that should enable us to further increase our penetration of this biscuit market. We are in the process of increasing our production capacity in Denmark by more than 50%. In Spain, Galletas Artiach is developing new strategic plans under a new management team.

Canada

Christie, Brown & Co. Ltd.'s cookie and cracker operation in Canada improved its market share in 1977. Operating profits were lower due to the continuance of wage and price controls and the weakness of the Canadian dollar.

Significant progress was made in other areas that should further strengthen Christie's business in the years ahead. Two new divisions were created in 1977 – Christie's Food Services Division, which was modeled after Nabisco's successful Food Services Division in the United States, and the Grocery Products Division, which has the responsibility to develop, test and market promising new packaged-food products.

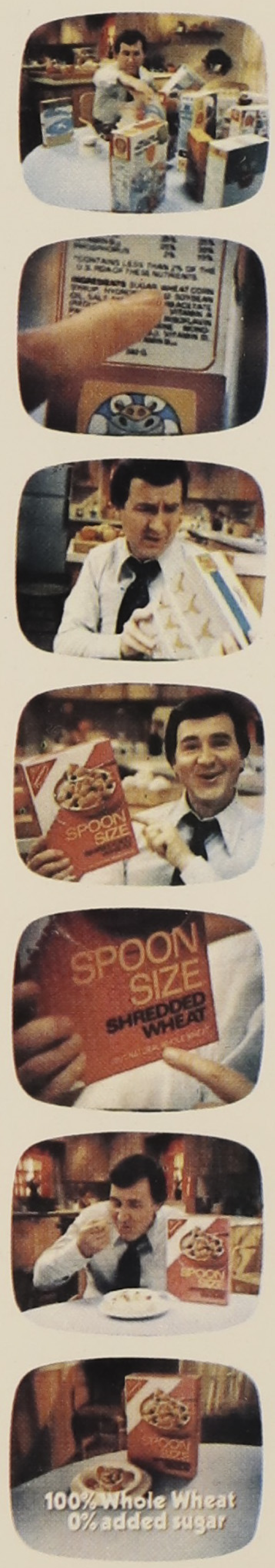
Another action that will have a favorable impact on future earnings performance was the decision to discontinue, in early 1978, the remaining bread

Marketing

Advanced market research, a motivated sales force, and brand-name power are the key elements of our aggressive marketing program. At Nabisco, attention to detail builds product acceptance and consumer loyalty.

T.V. commercial for Biscuit Division

T.V. commercial for The J.B. Williams Company



T.V. commercial for Special Products Division

Marketing is the execution of strategies and tactics developed by innovative brand-management teams to create a high degree of consumer awareness. We then must research the market in which these products compete and develop approaches to accomplish our objectives.

Nabisco's marketing effort begins with top quality products attractively and conveniently packaged and priced to represent value to the consumer.

Nabisco uses advertising to build brand-name awareness, while promotion is used as a catalyst to speed up consumer purchases.

But the game plan is ever changing, and marketing must have imagination, flair and flexibility to insure that every dollar invested is as productive as possible.

operation which was not providing an adequate return on the Company's investment.

Australasia

The Australian company, Nabisco Pty. Ltd., has become increasingly profitable, performing extremely well in both the ready-to-eat cereals and biscuit markets during 1977. A number of very successful cookie and snack cracker products were launched during the year, with excellent potential for long-term sales volume. Nabisco's operation in New Zealand, Griffin & Sons Ltd., has a strong share of the biscuit and confectionery markets and showed continuing gains in operating income during 1977.

Latin America

Latin America traditionally has been an excellent market for Nabisco and we enjoy a good market share in those countries in which we do business. While operating results remain quite profitable, 1977 results fell somewhat below historical levels. Government price controls in Venezuela hindered operating margins and the company was unable to recover increased raw materials and other costs in a timely fashion. We continue to be optimistic about our operations in this area. Our Mexican company reported improved operating income despite the continuation of price controls.

In Venezuela we approved plans to build a new modern bakery which is expected to be in production in 1979. In order to expand our operations in Mexico and Venezuela we were required, pursuant to the laws of those countries, to reduce our equity ownership to a 49% minority position. Accordingly, during 1977, Nabisco deconsolidated its Venezuelan operations, and in January 1978, its Mexican operations.

In Puerto Rico, Arbona Hermanos, which primarily produces soda crackers in tins, reported somewhat lower sales and operating profits in 1977.

Japan

Sales and operating income in Japan continued the sharp gains of recent years. Yamazaki-Nabisco Co., Ltd., 50% owned unconsolidated affiliate, is a joint venture whose sales exceeded $100 million for the first time. Volume gains have been substantial especially in the new-products area. *Chipstar,* a fabricated potato chip, continued to show strong gains, bolstered by an expanded marketing program. *Picola,* a rolled sugar wafer that comes in both chocolate and strawberry flavors, is very successful. Product innovation has made our joint venture extremely successful.

Toiletries and Pharmaceuticals

(Dollars in millions)	**1977**	1976	% Change
Sales	**$164.0**	$149.1	10.0
Operating Income	**10.6**	10.6	–

Toiletry and pharmaceutical products, essentially the principal business of The J. B. Williams Company, Inc., registered substantial increases in volume during 1977. The operating profit in the pharmaceuticals division increased modestly, but the toiletries division showed a slight reduction in operating profit compared with 1976 due to increased marketing costs related to new product introductions.

In spite of highly competitive markets, *Geritol* continues to be the major brand in the total vitamin/iron category, and *Sominex* enjoys a market share approximately equal to that of its two major competitors combined. In toiletries, *Aqua Velva* volume increased modestly in the somewhat stable after-shave market, while *Lectric Shave* maintained its important position in the pre-shave market. The *Ace Comb* operation showed progress in 1977, and the *Ace* line continues to be the number one comb brand in the United States. The *Rose Milk* line of products showed increased sales in 1977, following a very successful year in 1976. *Rose Milk* products currently include a skin-care cream in both scented and unscented varieties and a moisturizing face cream and face lotion. Additional product introductions under the *Rose Milk* name are currently being considered.

In markets outside the United States, many of the men's toiletry products are well known, especially *Aqua Velva.* J. B. Williams continues to be the leading men's toiletry company in both France and Spain and a new line of men's fragrances under the trade name *Savane* has been successfully introduced in France.

Most recently, the company introduced a high-protein product with vitamins and minerals in powder form designed as a formulated replacement

International

From England to Japan, we are developing a wide range of quality products to satisfy growing consumer demand. Nabisco's definition of nutrition and good taste translates well into any language.

Three of Nabisco's most successful new-product introductions to the international market are Chipstar potato chips and Picola cookies in Japan, and Hovis wheat crackers in England.

Nabisco became an international company in 1929, with the purchase of the Shredded Wheat companies in England and Canada. We now have modern production facilities in 16 countries outside the United States, employing about 18,000 nationals. Our decentralized structure allows our people to quickly meet changing market conditions. About 30% of total Company sales are generated outside the United States.

During 1977, *Hovis,* a new wheat cracker, was successfully introduced in England, and *Picola,* a rolled sugar wafer with either chocolate or strawberry filling, achieved success in the Japanese market.

for two meals per day when added to orange juice or low-fat milk. This product, *P.V.M.*, contains soy and milk protein and offers a well-balanced weight reduction plan related to reduced caloric intake.

Household Accessories

(Dollars in millions)	**1977**	1976	% Change
Sales	**$51.8**	$44.6	16.0
Operating Income	**7.7**	5.0	56.6

Nabisco's household accessories business is comprised of three unique parts: Hygiene Industries, Everlon Fabrics and Landers & Cia.

Hygiene Industries, Inc. manufactures plastic shower curtains, both under the Hygiene brand and for many private-label accounts. Hygiene turned in an excellent performance during 1977. The company's strength has been good design and quality products. Hygiene plans to increase its customer base through greater penetration of the smaller, regional mass merchandise chains and the distribution of its products on military posts.

Hygiene has expanded its line recently to include quality cloth shower curtains, which is a higher-priced line. In addition, the company has entered the plastic tablecloth business.

Everlon Fabrics Corp., a fabricator of knitted curtains, showed a significant improvement in sales and operating income during 1977. At the company's mill in Cape May, New Jersey, Everlon has the capability of starting with raw yarn and producing finished curtain material. With the addition of the Cape May facility in 1976, Everlon tripled its mill capacity. Everlon also has significantly improved its cutting and sewing capacity through modern techniques. A new lace curtain was introduced during 1977, and Everlon will begin to produce width-to-length curtains during 1978. Everlon's future emphasis will be to extend its product line.

Landers & Cia., the Colombian subsidiary of The J. B. Williams Company, Inc., produces housewares for the Central and South American and export markets. Operating profit in 1977 advanced sharply from year-earlier levels.

Management Changes

Nabisco's plans for the future called for top-level executive changes, which were made at the close of the 1977 year. These will improve the effectiveness of our management team and provide continuing support for the Office of the Chairman.

Warren J. Robertson, Senior Vice President, was elected Executive Vice President—Administration, and joined the Office of the Chairman.

C. Richard Owens, Vice President—Finance and Chief Financial Officer, was elected a Senior Vice President and continues as Chief Financial Officer.

Richard H. Gavoor, Controller, was elected a Corporate Vice President and will continue his responsibilities as Controller.

Claude B. Hampton, Vice President—Sales, Biscuit Division, was elected a Corporate Vice President and appointed President of the Biscuit Division.

Robert J. Powelson, President of the Biscuit Division, remains a Corporate Vice President and was appointed Assistant to the President of Nabisco, Inc.

William J. Tobin, President of the Food Services Division, was elected a Corporate Vice President.

Retirements

Nabisco wishes to express its thanks and appreciation to three officers who retired during the year. They were Theodore G. Richter, a Group Vice President; Edwin F. Mundy, Vice President for Traffic and Headquarters Facilities; and Dwight H. Scott, Vice President for Government Relations. All of these officers had many years of service with the Company and all made significant contributions to Nabisco and to industry in their specific areas of operation.

United States food products

NAB
CHEESE PEANUT BUTTER
Artificially Flavored
SANDWICH
VARIETY PACK
NET WT. 1½ OZ
FREEZER QUEEN
MUSHROOM GRAVY & CHAR BROILED BEEF PATTIES
NET WT. 32 OZS.
NABISCO
Enter Tahiti Sweepstakes
Junior Mints
REAL CHOCOLATE COVERED
mister salty
Veri-Thin PRETZEL STICKS
NET WT 10 OZ.
KORKERS
corn TWISTS
quick
CREAM OF WHEAT
Enriched with IRON
28 SERVINGS
ENRICHED FARINA
NET WT 28 OZ
(1 LB 12 OZ)
UM
RACKERS
Made with NATURAL SWISS CHEESE
Swiss Cheese
NATURALLY FLAVORED SNACK CRACKERS
NET WT 8½ OZ
FIG NEWTONS
CAKES
NET WT 2 OZ
No Sugar Added plus A Good Source of Natural Bran Fiber
SPOON SIZE
SHREDDED WHEAT
Tasty Easy to Make Snacks
see back panel
510 grams
100% NATURAL WHOLE WHEAT

Financial Review

Summary of Operations (1) *(In millions except per share data)*

	1977	1976	1975	1974	1973
Net sales	**$2,073.3**	$1,973.9	$1,904.9	$1,728.8	$1,394.7
Cost of sales	**1,354.0**	1,294.0	1,291.5	1,227.1	943.6
Selling, general and administrative expenses	**505.0**	485.6	438.9	382.9	347.6
Operating income	**214.3**	194.3	174.5	118.8	103.5
Miscellaneous expense (income), net	**28.8**	(5.3)	3.4	(9.3)	(6.8)
Interest expense	**19.2**	22.7	28.2	30.4	17.0
Income from continuing operations before income taxes	**166.3**	176.9	142.9	97.7	93.3
Income taxes	**62.4**	94.7	79.2	49.5	47.0
Income from continuing operations	**103.9**	82.2	63.7	48.2	46.3
Discontinued line of business					
Loss from operations (2)	**(2.2)**	(5.2)	(4.7)	(2.7)	(2.3)
Loss on disposal (3)	**(23.7)**	—	—	—	—
Net income	**$ 78.0**	$ 77.0	$ 59.0	$ 45.5	$ 44.0
Per share					
Income from continuing operations	**$ 6.47**	$ 5.14	$ 3.99	$ 3.02	$ 2.89
Loss from discontinued line of business	**(1.61)** (4)	(.32)	(.29)	(.17)	(.14)
Net income	**$ 4.86**	$ 4.82	$ 3.70	$ 2.85	$ 2.75
Dividends declared per share	**$ 2.52**	$ 2.40	$ 2.30	$ 2.30	$ 2.30
Average shares outstanding	**16.05**	15.98	15.96	15.96	15.98

(1) *Amounts for the years prior to 1977 have been restated for the discontinued line of business.*
(2) *Net of income tax credits of $2.8, $4.4, $3.6, $2.3 and $2.0 for the years 1977 to 1973, respectively.*
(3) *Net of income tax credit of $22.6.*
(4) *Includes loss on disposal of $1.48 per share.*

1977 Operations Compared with 1976 Operations

Sales—Nabisco's consolidated sales attained a record high of $2,073.3 million in 1977. This represents an increase of $99.4 million or 5.0% over 1976 results, restated to exclude Aurora Products Corp., which is reported as a discontinued line of business. The sales gain was achieved despite the unfavorable impact of foreign exchange rate fluctuations, the termination in midyear of XOX-Nabisco GmbH, the Company's West German cookie and cracker subsidiary, and the deconsolidation of Nabisco's affiliate in Venezuela in the latter part of 1977. On a comparable basis, sales in 1977 would have been 7.9% higher than in 1976.

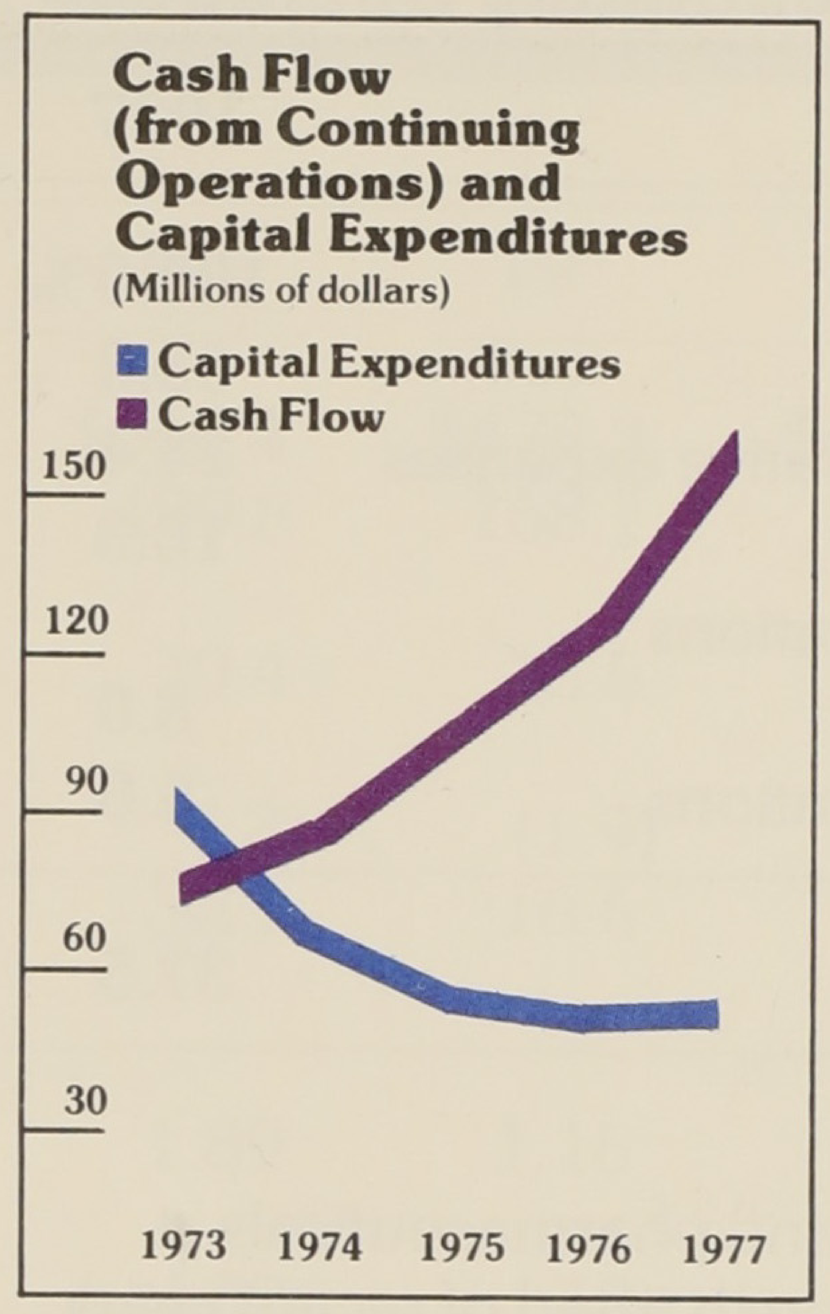
Nabisco's U.S. food operations' sales continued to increase on a year-to-year basis with 1977 showing a gain of 5.6% to $1,310.1 million due primarily to price increases required to offset cost increases. The Company's predominant food operation—cookies and crackers—was somewhat hindered by a soft retail market which resulted in volume levels comparable with 1976.

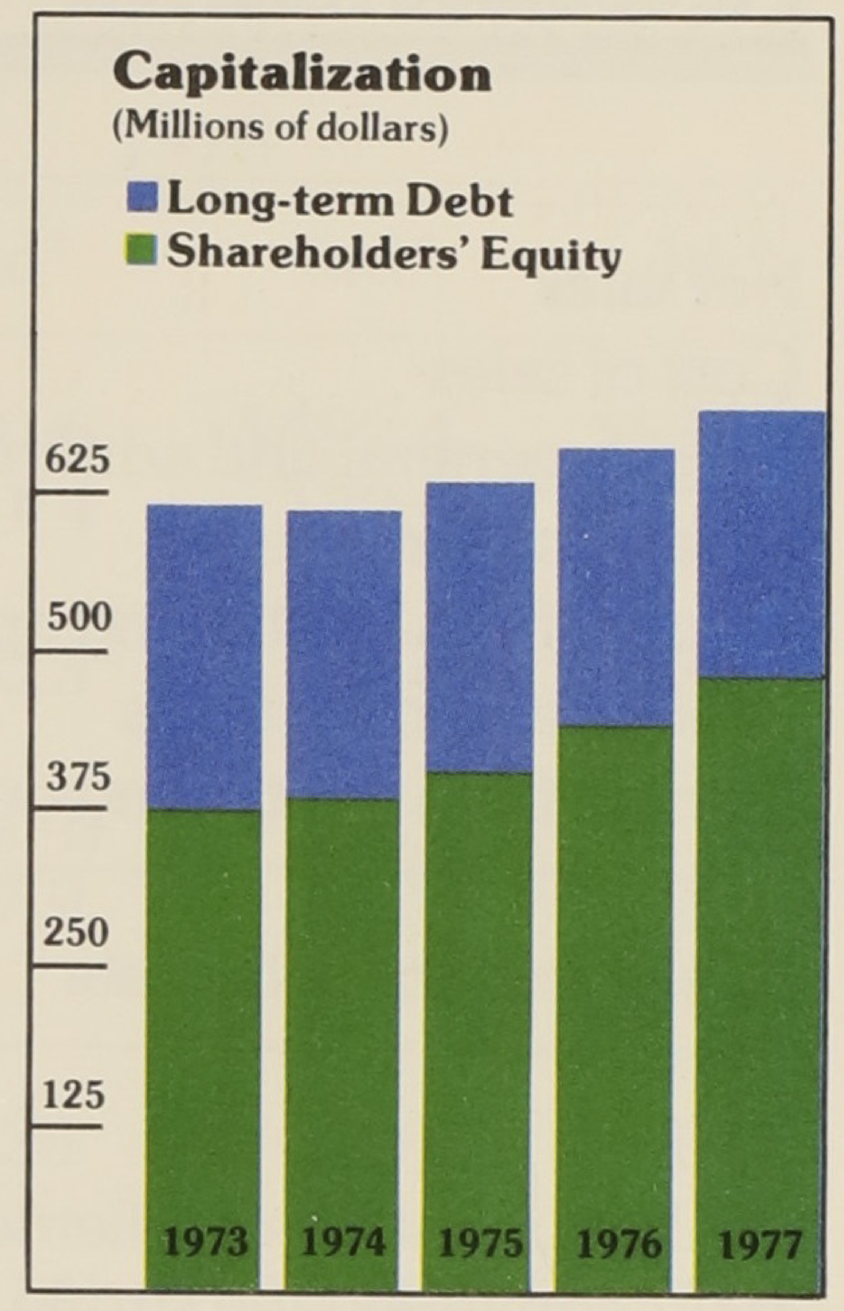
International food operations reported sales for the year of $547.4 million, 1.5% over last year's sales. While the European operations were experiencing slowly improving economic conditions, considerable improvement in sales occurred due to both price and volume increases, principally in the cookie and cracker lines. Australasian operations also showed improved results over 1976.

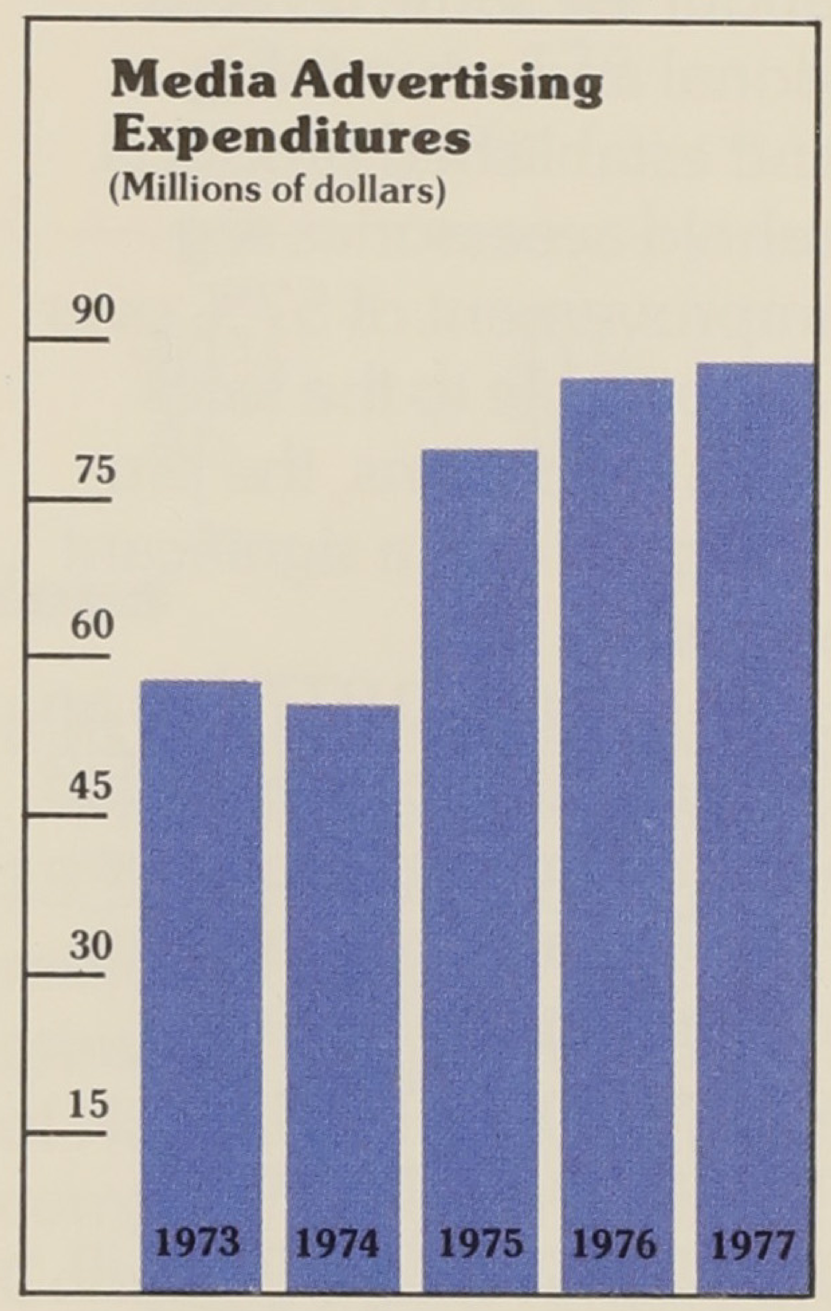
In contrast, Canadian operations suffered from unfavorable economic conditions which saw wage and price

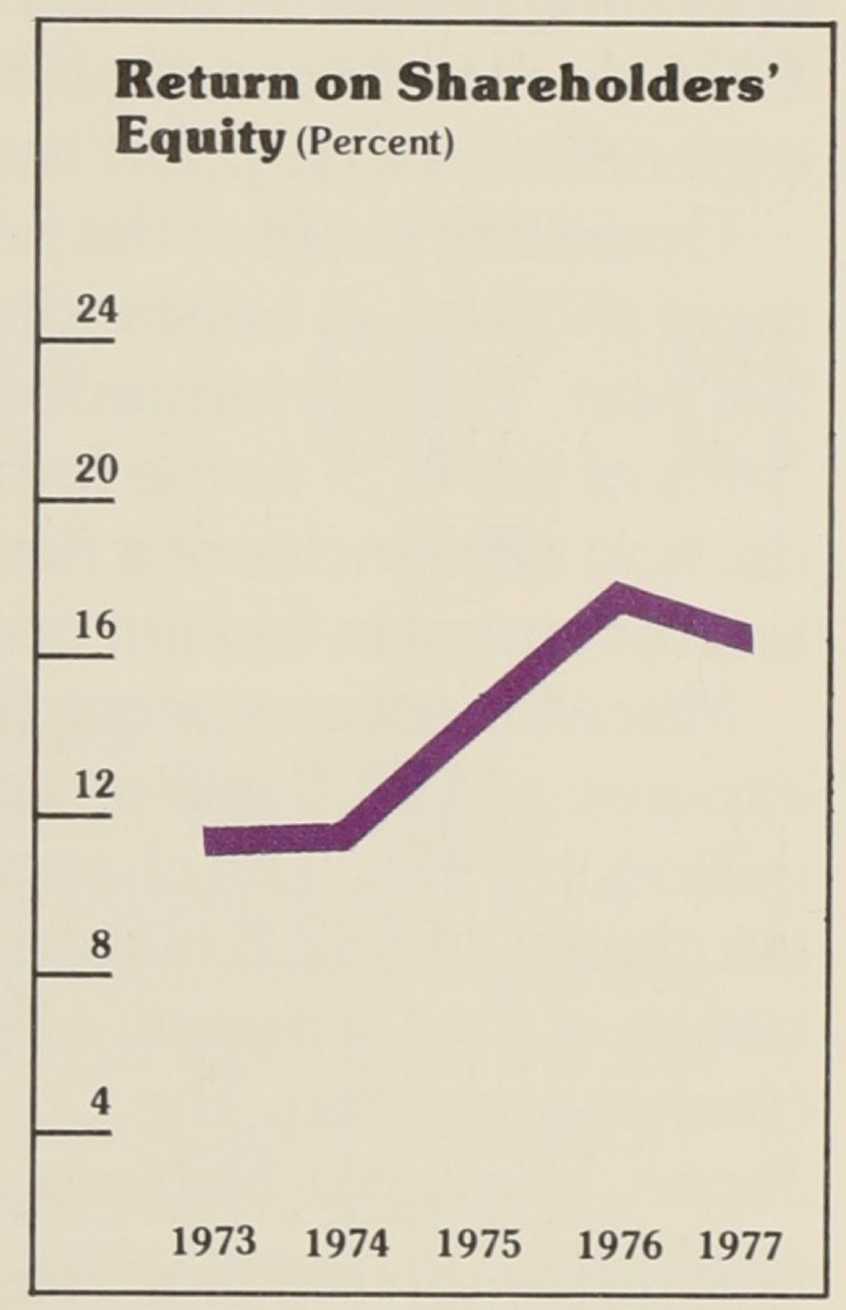
controls delay price increases to cover rising costs of raw materials and other operating expenses. The decline of the Canadian dollar caused sales to remain about the same as in 1976. Adjusting for this decline, sales would have been 7.6% higher.

Nabisco's nonfood segments also reported higher levels of sales in 1977. Toiletries and pharmaceuticals' sales rose by 10.0% to $164.0 million in 1977 with expanded promotional programs stimulating demand for established brand-name and new products. Household accessories registered a sharp improvement with sales up 16.0% to $51.8 million. This improvement reflected successful new product placement in the retail sales market and an overall recovery in the total market. **Income from continuing operations** for the 1977 year, which excludes results of Aurora Products Corp., was $103.9 million, or $6.47 per share, an increase of 26.4% over a comparable $82.2 million, or $5.14 per share, for 1976. However, adjusting 1977 per share earnings from continuing operations to exclude the one-time gain of $.72 per share from the discontinuance of the West German cookie and cracker operation and









1976 earnings per share to exclude a nonrecurring gain of $.12 per share from the sale of a South American cosmetics company, the year-to-year gain was $.73 per share, or 15.2%.

In 1977, operating profit margins of U.S. food operations were maintained with the aid of higher prices implemented to offset higher operating costs. Increased costs of prime ingredients such as chocolate, which almost doubled over 1976, and shortening more than offset the modest cost reductions in other major ingredients such as flour and sugar. Similar cost increases were experienced in the international food operations along with escalating costs of labor and employee benefits and, for the most part, such cost increases were recouped through volume gains, price increases and productivity improvements.

Geographic Segments (Dollars in millions)

	Sales		Operating Income		Identifiable Assets	
1977	Amount	%	Amount	%	Amount	%
United States	$1,481.2	71	$204.1	87	$ 596.0	59
Europe	308.9	15	10.1	4	246.2	24
Canada	143.5	7	10.6	5	65.9	7
Australasia	79.9	4	5.7	2	61.2	6
Latin America	59.8	3	5.1	2	36.5	4
Total Segments	2,073.3	100	235.6	100	1,005.8	100
Unallocated Corporate and Other	—		(21.3)		57.5	
Total	$2,073.3		$214.3		$1,063.3	
1976						
United States	$1,393.5	71	$190.0	89	$ 567.8	58
Europe	294.1	15	2.3	1	253.5	26
Canada	143.5	7	12.9	6	57.1	6
Australasia	75.8	4	3.0	1	57.3	6
Latin America	67.0	3	5.2	3	38.6	4
Total Segments	1,973.9	100	213.4	100	974.3	100
Unallocated Corporate and Other	—		(19.1)		84.2	
Total	$1,973.9		$194.3		$1,058.5	

Financial Review (continued)

Percentage Analysis—Continuing Operations

	1977	1976	1975	1974	1973
Net sales	**100.0%**	100.0%	100.0%	100.0%	100.0%
Cost of sales	**65.3**	65.6	67.8	71.0	67.7
Selling, general and administrative expenses	**24.4**	24.6	23.0	22.1	24.9
Operating income	**10.3**	9.8	9.2	6.9	7.4
Income from continuing operations before income taxes	**8.0**	9.0	7.5	5.7	6.7
Income from continuing operations	**5.0**	4.2	3.3	2.8	3.3
Effective income tax rate	**37.5**	53.5	55.4	50.7	50.4

Although sales of toiletries and pharmaceuticals in 1977 continued the strong growth trend of recent years, operating profits remained at about the same level as 1976 due to increased promotional and advertising expenditures to support new and established products.

Operating profit of the household accessories segment showed an outstanding improvement of 57% over last year. This performance is attributable to the sales gains of the U.S. home furnishings operations, the production efficiencies of a new U.S. plant and a significant improvement in foreign operations.

Miscellaneous expense (income), net for 1977 was an expense of $28.8 million compared with income of $5.3 million in 1976. The change was due primarily to a pretax charge of $32.8 million in 1977 related to the termination of the Company's West German cookie and cracker operation. The Company's joint venture in Japan, Yamazaki-Nabisco, continued a strong trend established in recent years, reporting record earnings in 1977. Miscellaneous expense (income), net for 1976, reflects a gain of $3.2 million from the sale of Nabisco's interest in an unconsolidated cosmetics company in South America. Also included in this caption are foreign exchange adjustments which amounted to losses before income taxes of $2.0 million in both 1977 and 1976. Nabisco follows a policy of attempting to minimize its foreign exchange exposures using a variety of approaches including entering into forward foreign exchange contracts.

Interest expense was reduced by $3.5 million, or $.11 per share, in 1977 to $19.2 million. The decline was due to a lower level of short-term borrowings. Borrowing requirements were reduced due to improved cash flow from operations and close attention to asset management. The average month-end short-term borrowing level and interest rate in 1977 were $29.0 million and 7.37% compared with $62.0 million and 6.97% in 1976.

Income taxes in 1977 decreased by $32.3 million to $62.4 million. The tax provision for 1977 equaled 37.5% of pretax income compared with 53.5% in 1976. The decrease in both the tax provision and the effective tax rate for 1977 was primarily attributable to the tax credit of $44.3 million derived from the writeoff of the West German cookie and cracker subsidiary. This tax credit resulted from losses incurred in prior years in West Germany which did not result in tax credits but which are now deductible for U.S. tax purposes.

Discontinued line of business—In the latter part of 1977, the Company announced plans to sell substantially all of the assets of its toy and game subsidiary, Aurora Products Corp. For the year, the total loss of $25.9 million included the estimated loss from the disposal of the net assets and the net loss from operations. This compared to a net loss from operations of $5.2 million in 1976.

Net income for 1977 increased to $78.0 million from $77.0 million in 1976. Net income per share totaled $4.86 in 1977 compared with $4.82 in 1976.

Distribution of 1977 Sales Dollar — Continuing Operations

1 Supplies and services 57.3¢

2 Employees 29.9¢

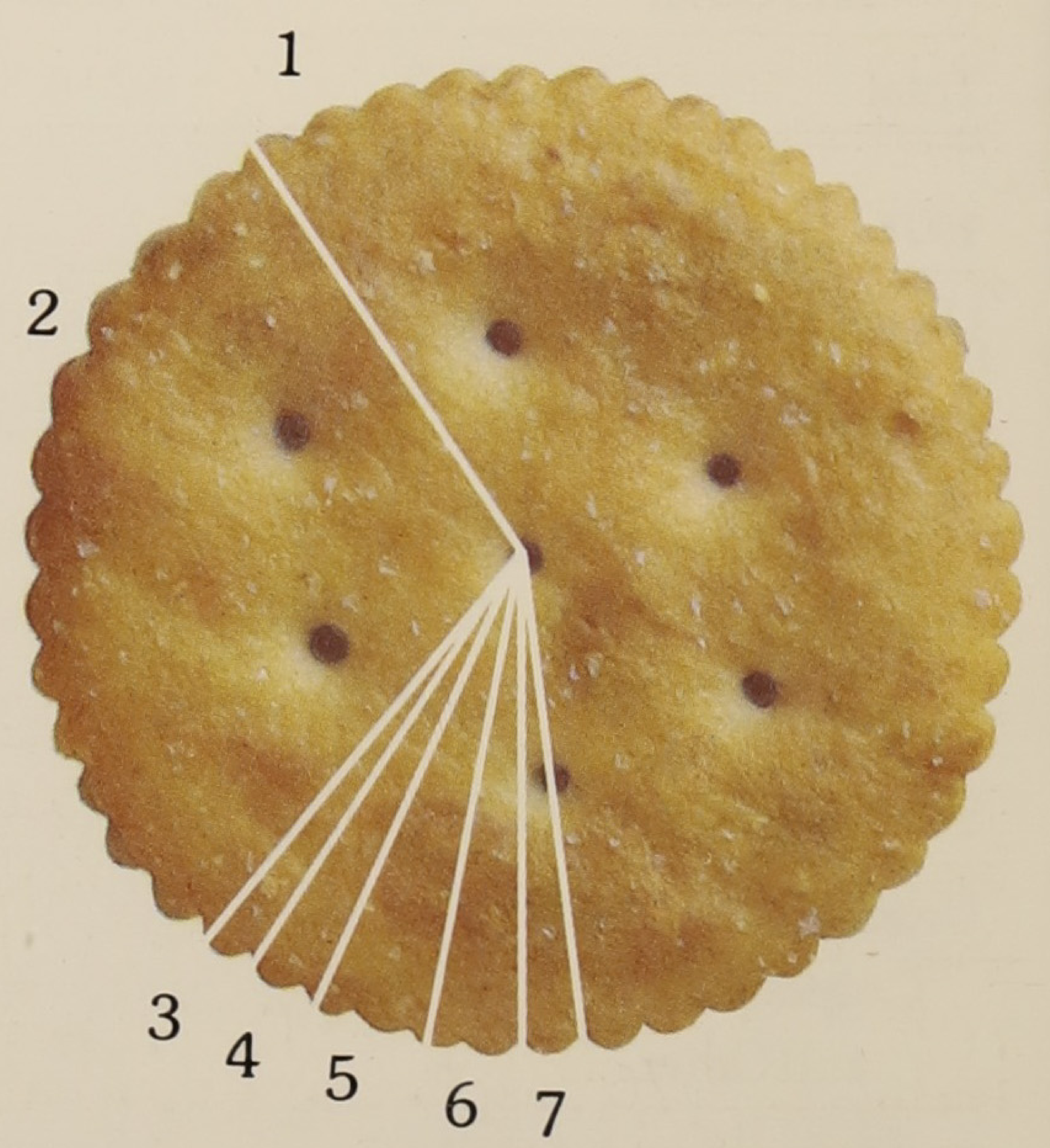
3 Depreciation 1.7¢

4 Interest expense and other expense, net 2.3¢

5 Taxes 3.8¢

6 Reinvested earnings 3.1¢

7 Dividends 1.9¢



Quarterly Financial Data *(In millions except per share data)*

	1977				1976			
	1st*	2nd*	3rd*	4th	1st*	2nd*	3rd*	4th*
Net sales	$499.4	$497.1	$508.4	$568.4	$478.3	$470.6	$492.4	$532.6
Gross profit	174.7	168.1	176.7	199.8	168.7	161.4	172.9	176.9
Income from continuing operations	19.8	31.1	22.6	30.4	18.5	20.3	20.6	22.8
Loss from discontinued line of business	(1.4)	(23.6)	(.6)	(.3)	(1.9)	(2.4)	(.3)	(.6)
Net income	18.4	7.5	22.0	30.1	16.6	17.9	20.3	22.2
Per share								
Income from continuing operations	1.23	1.94	1.41	1.89	1.16	1.26	1.29	1.43
Loss from discontinued line of business	(.08)	(1.47)	(.04)	(.02)	(.12)	(.14)	(.02)	(.04)
Net income	1.15	.47	1.37	1.87	1.04	1.12	1.27	1.39
Dividends paid	.60	.63	.63	.63	.575	.60	.60	.60

**Restated for the discontinued line of business.*

Stock prices								
High	51⅛	53¾	54½	51½	41⅛	42¾	47⅞	50⅞
Low	45¼	47⅝	48¾	46	35½	36	40⅝	42⅜

1976 Operations Compared with 1975 Operations

Sales in 1976 were $1,973.9 million compared with $1,904.9 million in 1975. The increase was primarily a result of unit volume gains in the U.S. food operations aided by new product introductions.

Consolidated international sales increased 1.3% to $580.4 million in 1976. International sales would have increased 9.1% except for the unfavorable impact of foreign exchange rate changes. Canadian, Latin American and Australasian operations continued to experience strong performances.

Income from continuing operations grew from $63.7 million ($3.99 per share) in 1975 to $82.2 million ($5.14 per share) in 1976, an increase of 29%. Excluding the $.12 per share nonrecurring gain in 1976 from the sale of Nabisco's interest in an unconsolidated cosmetics company in South America, and a nonrecurring charge of $.18 per share in 1975 for costs related to the relocation of Nabisco's World Headquarters, the increase would have been 20%.

The U.S. food operations showed significant improvement over 1975 which was attributable to effective marketing programs and favorable raw material costs. The reduced raw material costs more than offset increased expenses in labor, employee benefits and other operating areas associated with higher sales volume. International food operations reported strong results in 1976 despite the unfavorable impact of foreign currency fluctuations. Successful new product introductions contributed to the profit improvement in the toiletries and pharmaceuticals operation.

Miscellaneous expense (income), net amounted to $5.3 million of income in 1976 compared with $3.4 million of expense in 1975. The improvement was due primarily to a gain of $3.2 million in 1976 from the sale of Nabisco's interest in the unconsolidated cosmetics company in South America, improved results of the Company's joint venture in Japan, and the nonrecurring expense in 1975 of $5.8 million for costs related to the relocation of Nabisco's World Headquarters. Losses from foreign exchange adjustments before income taxes amounted to $2.0 million in 1976 compared with $.3 million in 1975.

Interest expense declined $5.5 million in 1976, or $.17 per share to $22.7 million, principally due to lower short-term debt and lower interest rates. Borrowing requirements were reduced primarily by improved cash flow from operations.

Income taxes of $94.7 million increased $15.5 million over 1975 due principally to increased income before taxes and higher state and local income tax rates. The decrease in the effective tax rate in 1976 to 53.5% from 55.4% in 1975 was primarily due to a reduction of losses in German operations for which tax benefits were not available.

Discontinued line of business—The toys and games operation incurred losses of $5.2 million in 1976 and $4.7 million in 1975. Model motoring sales were strong in 1976 but total results were adversely affected by

Financial Review (continued)

Other Financial Data *(In millions except per share data)*

	1977	1976	1975	1974	1973
Working capital	**$ 287.4**	$ 235.8	$ 191.7	$ 178.3	$ 215.1
Plant and equipment	**415.5**	425.4	413.5	391.9	356.3
Capital expenditures	**55.2**	54.1	56.0	67.6	92.1
Depreciation expense*	**34.9**	34.4	32.4	30.6	25.4
Total assets	**1,063.3**	1,058.5	1,014.4	1,046.9	888.5
Short-term debt	**12.4**	47.7	62.9	171.3	45.7
Long-term debt	**210.3**	218.3	225.5	226.5	241.5
Shareholders' equity	**486.7**	446.9	407.1	384.8	376.3
Shareholders' equity per share	**30.35**	27.96	25.52	24.12	23.58
Long-term debt to capitalization	**30.2%**	32.8%	35.6%	37.1%	39.1%
Foreign exchange gains (losses), net of income taxes*	**(2.6)**	(.9)	(1.2)	2.1	3.8
Return on shareholders' equity	**16.7%**	18.0%	14.9%	11.9%	11.8%

Amounts for the years prior to 1977 have been restated for the discontinued line of business.

lower than anticipated games sales.
Net income for 1976 increased 30.5% to $77.0 million. Net income per share amounted to $4.82 in 1976 versus $3.70 in 1975.

Working capital increased by $51.6 million to $287.4 million in 1977 with the current ratio moving up to 2.06:1 from 1.82:1 in 1976. Cash flow from continuing operations in 1977 increased by 23.9% to $157.8 million. The Company has significantly reduced its short-term debt and, with the new level of profitability, expects to further increase its liquidity. This situation provides the Company with the resources to take advantage of long-term investment opportunities as they arise.
Dividends—In January, 1978, the Board of Directors voted to increase the quarterly dividend by almost 10% to $.69 per share which is equal to an annualized rate of $2.76. This compares with a 1977 annualized rate of $2.52 per share.
Capital expenditures in 1977 of $55.2 million remained at about the same level as last year and were essentially for modernization and expansion of production capability at a number of locations. In the United States, new baking and packaging lines for cookie, cracker, cereal and pet food products were started or completed. In the international area, a new cereal line was completed in Canada and expansion of cookie and cracker facilities in Denmark and Italy was started.

For 1978, capital expenditures are anticipated to reach $80 million and will include a number of new packaging equipment and oven installations for the cookie and cracker operations, completion of a new pet food oven line and new distribution facilities in the United States. The expansion projects in Denmark and Italy will also be completed in 1978. The Company views the level of expenditures in 1977 and 1978 as being satisfactory to maintain the growth in future sales volume and to further enhance productivity.

Report of Auditors

To the Shareholders of Nabisco, Inc.:

We have examined the consolidated balance sheets of Nabisco, Inc. and its subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of income and retained earnings, capital stock and additional paid-in capital and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Nabisco, Inc. and its subsidiaries at December 31, 1977 and 1976, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

1251 Avenue of the Americas
New York, N.Y. 10020
January 30, 1978

Consolidated Statement of Income and Retained Earnings

	Year Ended December 31	
	1977	1976
Net sales	**$2,073,278,000**	$1,973,904,000
Cost of sales	**1,354,048,000**	1,294,033,000
Gross profit	**719,230,000**	679,871,000
Selling, general and administrative expenses	**504,983,000**	485,522,000
Operating income	**214,247,000**	194,349,000
Miscellaneous expense (income), net	**28,775,000**	(5,299,000)
Interest expense	**19,195,000**	22,766,000
Income from continuing operations before income taxes	**166,277,000**	176,882,000
Income taxes		
Current		
United States	**38,455,000**	63,069,000
Foreign	**9,585,000**	10,486,000
State and local	**4,940,000**	10,401,000
Deferred	**9,402,000**	10,729,000
Total income taxes	**62,382,000**	94,685,000
Income from continuing operations	**103,895,000**	82,197,000
Discontinued line of business		
Loss from operations, net of income tax credits of $2,775,000 in 1977 and $4,388,000 in 1976	**(2,179,000)**	(5,152,000)
Loss on disposal, net of income tax credit of $22,600,000	**(23,700,000)**	—
Net income	**78,016,000**	77,045,000
Retained earnings, beginning of year	**366,119,000**	327,351,000
Dividends declared, $2.52 per share in 1977 and $2.40 per share in 1976	**(40,335,000)**	(38,277,000)
Retained earnings, end of year	**$ 403,800,000**	$ 366,119,000
Per share		
Income from continuing operations	**$6.47**	$5.14
Discontinued line of business		
Loss from operations	**(.13)**	(.32)
Loss on disposal	**(1.48)**	—
Net income	**$4.86**	$4.82

1976 amounts have been restated for the discontinued line of business.

(Financial statements should be read in conjunction with the statement of accounting policies and notes to financial statements on pages 26 through 30.)

Consolidated Balance Sheet

NABISCO, INC.

ASSETS	December 31 1977	1976
Current assets		
Cash	$ 18,715,000	$ 9,427,000
Short-term investments, at cost which approximates market	39,423,000	13,907,000
Accounts receivable	194,880,000	197,515,000
Inventories	284,789,000	304,248,000
Net assets of discontinued line of business	21,783,000	—
Total current assets	559,590,000	525,097,000
Property, plant and equipment	415,497,000	425,412,000
Other assets	30,886,000	33,151,000
Excess of investments in consolidated subsidiaries over net assets	57,358,000	74,870,000
Total assets	$1,063,331,000	$1,058,530,000

LIABILITIES AND SHAREHOLDERS' EQUITY	1977	1976
Current liabilities		
Short-term debt	$ 12,385,000	$ 47,729,000
Accounts payable	90,206,000	90,862,000
Accrued liabilities	131,831,000	113,327,000
Dividend payable	10,096,000	9,575,000
Income taxes	27,704,000	27,757,000
Total current liabilities	272,222,000	289,250,000
Long-term debt	210,340,000	218,340,000
Other liabilities	33,858,000	35,409,000
Deferred income taxes	41,372,000	49,730,000
Unamortized investment tax credit	12,752,000	11,644,000
Minority interests in consolidated subsidiaries	6,124,000	7,254,000
Shareholders' equity		
Capital stock, common-par value $5, shares authorized 24,000,000	80,455,000	80,173,000
Additional paid-in capital	5,105,000	3,180,000
Retained earnings	403,800,000	366,119,000
Treasury stock, at cost	(2,697,000)	(2,569,000)
Total shareholders' equity	486,663,000	446,903,000
Total liabilities and shareholders' equity	$1,063,331,000	$1,058,530,000

(Financial statements should be read in conjunction with the statement of accounting policies and notes to financial statements on pages 26 through 30.)

Consolidated Statement of Changes in Financial Position

	Year Ended December 31 1977	1976
Financial resources provided		
Income from continuing operations	**$103,895,000**	$ 82,197,000
Charges to income not affecting working capital		
Depreciation	**34,912,000**	34,434,000
Deferred income taxes and investment tax credit	**9,402,000**	10,729,000
Writeoff of excess of investment in terminated operation over net assets	**9,618,000**	—
Working capital provided from continuing operations	**157,827,000**	127,360,000
Reclassification of noncurrent net assets of terminated operation	**4,486,000**	—
Disposals of property, plant and equipment	**5,045,000**	7,396,000
Increase in other liabilities	**5,233,000**	8,324,000
Other, net	**2,413,000**	249,000
Total financial resources provided	**175,004,000**	143,329,000
Financial resources applied		
Discontinued line of business		
Net loss	**25,879,000**	5,152,000
Depreciation	**(1,282,000)**	(1,323,000)
Deferred income taxes	**16,746,000**	1,526,000
Writeoff of excess of investment over net assets	**(7,715,000)**	—
Property, plant and equipment held for disposal	**(10,325,000)**	—
Other, net	**(3,585,000)**	—
Working capital applied from discontinued line of business	**19,718,000**	5,355,000
Capital expenditures	**55,174,000**	54,095,000
Dividends declared	**40,335,000**	38,277,000
Current installment and repurchase of debentures	**2,090,000**	2,085,000
Increase (decrease) in other assets	**3,455,000**	(5,650,000)
Decrease in other long-term debt	**2,711,000**	5,042,000
Total financial resources applied	**123,483,000**	99,204,000
Increase in working capital	**$ 51,521,000**	$ 44,125,000

Increase (decrease) in the components of working capital	1977	1976
Cash and short-term investments	**$ 34,804,000**	$ 2,294,000
Accounts receivable	**(2,635,000)**	6,465,000
Inventories	**(19,459,000)**	29,017,000
Net assets of discontinued line of business	**21,783,000**	—
Short-term debt	**35,344,000**	15,126,000
Other current liabilities	**(18,316,000)**	(8,777,000)
Increase in working capital	**$ 51,521,000**	$ 44,125,000

(Financial statements should be read in conjunction with the statement of accounting policies and notes to financial statements on pages 26 through 30.)

Consolidated Statement of Capital Stock and Additional Paid-in Capital

(Dollars in thousands)

	Common Stock				Additional Paid-in Capital
	Issued		Treasury Stock		
	Shares	Amount	Shares	Amount	
Balance, January 1, 1976	16,005,997	$80,030	(52,020)	($2,535)	$2,276
Issued in connection with:					
Exercise of stock options	28,483	143	—	—	914
Incentive compensation plans	—	—	1,319	64	—
Conversion of debentures	59	—	—	—	3
Treasury stock acquired	—	—	(2,054)	(98)	(13)
Balance, December 31, 1976	16,034,539	80,173	(52,755)	(2,569)	3,180
Issued in connection with:					
Exercise of stock options	56,086	280	—	—	1,919
Conversion of debentures	396	2	—	—	21
Treasury stock acquired	—	—	(2,630)	(128)	(15)
Balance, December 31, 1977	16,091,021	$80,455	(55,385)	($2,697)	$5,105

(Financial statements should be read in conjunction with the statement of accounting policies and notes to financial statements on pages 26 through 30.)

Statement of Accounting Policies

Consolidation—Nabisco consolidates its majority-owned subsidiaries. For companies in which it has a substantial interest, but owns less than a majority, Nabisco records its share of net results in "Miscellaneous expense (income), net."

The financial statements of most foreign subsidiaries are included on a fiscal-year basis ending on November 30 to facilitate prompt reporting of year-end consolidated results.

Inventories are stated principally at the lower of average cost or market.

Property, plant and equipment is recorded at cost. For financial reporting purposes, Nabisco generally provides depreciation on buildings, machinery and equipment on a straight-line basis, which provides that equal amounts of depreciation expense are charged to operations each year during the useful lives of the assets.

Depreciation is generally based on the following useful lives: buildings, 20 to 40 years; machinery and equipment, 3 to 20 years.

The cost and related accumulated depreciation of plant and equipment which is sold or otherwise disposed of are removed from the accounts and any resulting gain or loss is reflected in income.

Expenditures for maintenance and repairs are charged against income in the year in which they are incurred. Expenditures that result in the enhancement of the value of the facilities involved are treated as additions to plant and equipment.

Excess of investments in consolidated subsidiaries over net assets—For businesses acquired prior to 1971 and accounted for as purchases, the excess of the acquisition cost over the fair value of the net assets is not being amortized because, in the opinion of management, there has been no diminution of value. The excess relating to acquisitions made in 1971 and thereafter is being reduced by annual charges against income over a 40-year period.

Income taxes—Deferred income taxes, principally U.S. Federal taxes, result primarily from the use of accelerated depreciation methods for tax purposes which provide more depreciation expense in the early years than in the later years of the lives of the assets being depreciated.

Investment tax credit—Nabisco generally recognizes the U.S. investment tax credit earned on qualified capital additions by reducing income tax expense over the estimated useful lives of the related assets.

Net income per share is based on the weighted-average number of shares outstanding during the periods presented after giving effect to the potential dilutive effect of the exercise of stock options.

Notes to Financial Statements

Disposals of operations—In mid-1977, Nabisco announced its intention to terminate its cookie and cracker subsidiary, XOX-Nabisco GmbH, in West Germany. A provision of $32,800,000 was made for estimated losses on disposal of the net assets and close-down costs relative to this termination and is included in "Miscellaneous expense (income), net." This termination resulted in a tax credit of $44,300,000 primarily due to losses, previously recorded in West Germany without tax benefit, which are now deductible for U.S. tax purposes. The excess of the estimated close-down costs over the realizable value of the net assets appears in the caption "Accrued liabilities" in the Consolidated Balance Sheet. It is expected that the remaining assets and liabilities relating to XOX will be liquidated during 1978.

Also in mid-1977, the Company announced its decision to discontinue certain product lines of Aurora Products Corp., its toy and game subsidiary, and a provision was made for estimated losses relative to discontinuing these product lines. On November 7, 1977 the Company entered into an agreement in principle for the disposition of substantially all of the assets of Aurora subject to the approval of the Boards of Directors of Nabisco, Inc. and the prospective purchaser and the execution of a definitive agreement. Aurora's net loss from operations for 1977 and 1976 and the estimated loss on the disposal of the company's net assets are reported in the caption "Discontinued line of business" in the Consolidated Statement of Income and Retained Earnings. Net sales of Aurora, $44,296,000 and $53,382,000 in 1977 and 1976, respectively, together with applicable operating expenses have been excluded from the consolidated results of continuing operations. The net assets of Aurora at realizable value, principally accounts receivable, inventories and property, plant and equipment, appear in the caption "Net assets of discontinued line of business" in the Consolidated Balance Sheet and are expected to be disposed of during 1978.

Supplementary balance sheet information:

	December 31 1977	1976
Inventories:		
Finished products	**$135,485,000**	$134,898,000
Raw materials and supplies	**149,304,000**	169,350,000
Total	**$284,789,000**	$304,248,000
Property, plant and equipment:		
Land	**$ 14,894,000**	$ 18,150,000
Buildings	**205,277,000**	205,941,000
Machinery and equipment	**561,529,000**	565,828,000
	781,700,000	789,919,000
Less accumulated depreciation	**366,203,000**	364,507,000
Total	**$415,497,000**	$425,412,000
Accrued liabilities:		
Payrolls	**$ 46,253,000**	$ 41,924,000
Trade discounts	**17,457,000**	16,475,000
Net liability for XOX-Nabisco	**14,841,000**	—
Taxes, other than income taxes	**10,181,000**	11,309,000
Interest	**3,882,000**	4,571,000
Other	**39,217,000**	39,048,000
Total	**$131,831,000**	$113,327,000

Other assets consists of prepaid expenses, deferred charges, and investments/advances to unconsolidated affiliates and others.

Short-term debt:

	December 31 1977	1976
U.S. commercial paper	—	$36,717,000
Foreign borrowings, principally bank loans	**$ 8,189,000**	5,936,000
Current portion of long-term debt	**4,196,000**	5,076,000
Total	**$12,385,000**	$47,729,000

In 1977, the Company terminated a $50 million revolving credit agreement with a group of international banks. $25 million in lines of credit continue to be maintained with domestic banks for short-term borrowing requirements and to support the issuance of commercial paper. Additional short-term credit facilities are maintained by the Company and its subsidiaries for international borrowing requirements. At December 31, 1977

Notes to Financial Statements (continued)

and 1976, Nabisco's unused credit facilities amounted to $82,200,000 and $130,600,000, respectively.

The following summarizes information pertaining to short-term borrowings:

	1977	1976
Average amount of short-term borrowings during the year	**$29,000,000**	$62,000,000
Maximum amount of short-term borrowings at any month-end	**$47,000,000**	$78,000,000
Weighted-average interest rate during the year	**7.37%**	6.97%
Weighted-average interest rate at December 31	**10.01%**	6.56%

The average amount of short-term borrowings outstanding during the year is computed on a month-end basis. The weighted-average interest rate during the year is based on borrowings and the related interest rates at the end of each month. The weighted-average interest rate at December 31, 1977 relates solely to foreign borrowings.

Long-term debt:

	December 31 1977	1976
6½% Guaranteed Debentures due October 1, 1982	**$ 7,432,000**	$ 8,570,000
4¾% Subordinated Debentures due April 1, 1987	**28,113,000**	29,135,000
5¼% Guaranteed Convertible Debentures due March 1, 1988	**28,263,000**	28,283,000
7¾% Sinking Fund Debentures due May 1, 2001	**50,000,000**	50,000,000
7¾% Sinking Fund Debentures due November 1, 2003	**75,000,000**	75,000,000
Other long-term debt	**25,728,000**	32,428,000
	214,536,000	223,416,000
Less current portion	**(4,196,000)**	(5,076,000)
Total	**$210,340,000**	$218,340,000

The 5¼% Guaranteed Convertible Debentures are convertible at $50.50 per share into approximately 560,000 shares of common stock.

At December 31, 1977, "Other long-term debt," maturing between 1978 and 2004, at a weighted-average interest rate of 7.71% (7.19% in 1976), consists principally of foreign borrowings.

The aggregate amount of debt maturities and sinking fund requirements for the four years following December 31, 1978 are: 1979, $6,525,000; 1980, $6,877,000; 1981, $6,705,000; 1982, $8,996,000.

Other liabilities consists primarily of pension accruals established to cover U.S. prior service liabilities and pension obligations of subsidiaries operating in countries where it is customary for companies to administer their own pension plans.

Retirement plans—The Company has a voluntary, noncontributory pension plan, which has been approved by the shareholders, for employees not covered by union pension plans. Certain subsidiaries have similar plans. In general, the plans provide for mandatory retirement at age 65 with benefits computed on the basis of length of service and employee earnings. The pension expense includes a provision for current service costs and, where applicable, amortization of unfunded prior service liabilities over primarily a 40-year period.

Annually, the Company pays to independent investment managers amounts computed on an actuarial basis to provide for the successful operation of its pension plan. In addition, union pension plans require contributions as defined in the union agreements. Total pension expense amounted to $32,134,000 in 1977 and $28,701,000 in 1976. At December 31, 1977, the amount necessary to fund all prior service liabilities under Nabisco plans is estimated to be $103 million. At the most recent actuarial valuation dates, estimated vested benefits exceeded the value of trust assets by approximately $60 million.

Income taxes—A reconciliation from the U.S. Federal statutory rate of 48% to the reported tax rate follows:

	1977 Amount	%	1976 Amount	%
Computed at 48% of pretax earnings	**$79,813,000**	**48**	$84,903,000	48
Increases (decreases)				
State and local income taxes, net of federal tax benefit	**5,690,000**	**4**	5,409,000	3
Excess of tax loss over book loss of terminated operation	**(28,556,000)**	**(17)**	—	—
Other	**5,435,000**	**3**	4,373,000	3
As reported	**$62,382,000**	**38**	$94,685,000	54

The deferred income tax provision, principally U.S. Federal taxes, results from:

	1977	1976
Excess of tax over book depreciation	**$10,901,000**	$ 8,017,000
U.S. investment tax credit	**1,108,000**	1,984,000
Other, net	**(2,607,000)**	728,000
Total	**$ 9,402,000**	$10,729,000

U.S. income and foreign withholding taxes are being provided currently on foreign subsidiaries' net earnings that are expected to be distributed to the parent company.

Over the years, the Company has indefinitely reinvested approximately $61 million of foreign subsidiaries' retained earnings to meet their operating and long-term needs and, accordingly, no U.S. income taxes have been provided on these amounts. If such earnings were distributed in the future, it is expected that the amount of additional U.S. income taxes required would not be significant because of the availability of foreign tax credits thereon.

Supplementary income statement information:

	1977	1976
Maintenance and repairs	**$ 68,584,000**	$ 65,735,000
Depreciation	**$ 34,912,000**	$ 34,434,000
Taxes, other than income taxes		
Payroll	**$ 39,306,000**	$ 37,201,000
Other, principally property	**17,297,000**	16,830,000
Total	**$ 56,603,000**	$ 54,031,000
Research and development	**$ 9,309,000**	$ 9,310,000
Media advertising	**$ 88,267,000**	$ 86,534,000
Beginning inventory for cost of sales computation	**$279,523,000**	$249,135,000

Incentive compensation—In 1976, the shareholders approved the Nabisco Incentive Compensation Program (1976) which replaced the 1968 Management Incentive Plan and the Employee Stock Option Plan (1969). This program provides for incentive awards to employees selected by the Compensation Committee of the Board of Directors, whose members are not eligible for awards. The amounts of the awards are determined by the Compensation Committee based on the relationship of profit performance to predetermined short- and long-term goals. Under the program, the provision was $3,650,000 in 1977 and $3,381,000 in 1976.

Transactions with respect to options previously granted under the Employee Stock Option Plan (1969) are summarized below:

	1977		1976	
	Shares	Option Price*	Shares	Option Price*
Exercised	**56,086**	**$39.23**	28,483	$37.18
Expired or cancelled	**6,596**	**50.90**	13,541	48.81
Outstanding, end of year	**214,583**	**43.56**	277,265	42.86
Exercisable, end of year	**214,583**	**43.56**	271,158	42.80

**Represents the weighted-average price per share at the dates options were granted.*

Foreign exchange adjustments amounted to losses, net of taxes, of $2,624,000 in 1977 and $920,000 in 1976. These adjustments reflect gains and losses resulting from the translation of foreign financial statements, forward foreign exchange contracts and foreign currency transactions.

Commitments, principally for plant and equipment, approximated $17 million at December 31, 1977.

The Company's principal leases relate to buildings and equipment. These lease commitments expire on various dates with no significant leases expiring later than 2025. Minimum rental payments under noncancellable operating leases total $219,231,000 and are payable as follows: 1978, $14,815,000; 1979, $13,324,000; 1980, $12,189,000; 1981, $11,139,000; 1982, $9,120,000; 1983 and after, $158,644,000.

Capital leases entered into prior to January 1, 1977 have not been capitalized. The effect of capitalizing these leases would be to increase property, plant and equipment by approximately $64,126,000 and $68,673,000 at December 31, 1977 and 1976. Long-term debt, including current portion, would increase by approximately $64,340,000 and $67,534,000 at December 31, 1977 and 1976 and net income for both years would not have been materially affected.

Rental expense charged to income amounted to $18,160,000 and $17,336,000 in 1977 and 1976, respectively.

Notes to Financial Statements (continued)

Business segments —The continuing operations of the Company are in the following industries: food (U.S. and International), toiletries and pharmaceuticals, and household accessories. Data regarding Nabisco's operations in these industries are as follows:

(Dollars in millions)	Sales		Operating Income		Identifiable Assets		Capital Expenditures		Depreciation Expense	
1977	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
United States Food	$1,310.1	63	$190.5	81	$ 506.3	50	$36.3	68	$20.6	60
International Food	547.4	26	26.8	11	381.3	38	14.0	26	11.6	33
Total Food	1,857.5	89	217.3	92	887.6	88	50.3	94	32.2	93
Toiletries and Pharmaceuticals	164.0	8	10.6	5	79.7	8	2.6	5	1.5	4
Household Accessories	51.8	3	7.7	3	38.5	4	.8	1	.9	3
Total Segments	2,073.3	100	235.6	100	1,005.8	100	53.7	100	34.6	100
Unallocated Corporate and Other	—		(21.3)		57.5		1.5		.3	
Total	$2,073.3		$214.3		$1,063.3		$55.2		$34.9	
1976										
United States Food	$1,240.6	63	$178.6	84	$ 485.9	50	$36.9	70	$19.7	57
International Food	539.6	27	19.2	9	379.3	39	11.2	21	12.2	36
Total Food	1,780.2	90	197.8	93	865.2	89	48.1	91	31.9	93
Toiletries and Pharmaceuticals	149.1	8	10.6	5	72.3	7	1.8	4	1.4	4
Household Accessories	44.6	2	5.0	2	36.8	4	2.8	5	.9	3
Total Segments	1,973.9	100	213.4	100	974.3	100	52.7	100	34.2	100
Unallocated Corporate and Other	—		(19.1)		84.2		1.4		.2	
Total	$1,973.9		$194.3		$1,058.5		$54.1		$34.4	

Data regarding the Company's principal geographic segments appears on page 19.

Litigation—Various legal proceedings and claims are pending against the Company and certain of its subsidiaries. Although Nabisco's liability with respect to such matters cannot be ascertained at December 31, 1977, in the opinion of management and counsel of Nabisco, the ultimate liability, if any, from all pending legal proceedings and claims will not materially affect Nabisco's financial position or the results of its operations.

Quarterly financial data (unaudited) for 1977 and 1976 appears on page 21.

Current replacement cost information (unaudited)—Under rules of the Securities and Exchange Commission, current replacement cost information for certain assets and expenses is disclosed in Nabisco's Annual Report Form 10-K which is filed with the Commission.

This information shows that the current replacement costs of Nabisco's inventories, plant and equipment are higher than the comparable historical amounts shown in the Consolidated Balance Sheet. Additionally, cost of sales and depreciation expense calculated using replacement costs are also higher than the comparable historical amounts. However, the higher replacement cost depreciation expense would be substantially offset by cost savings which would result from the replacement of existing assets with assets of improved technology.

Directors and Officers

Board of Directors

Lee S. Bickmore*
Chairman of the Executive Committee

Berford Brittain, Jr.*
Former Senior Vice President, Continental Illinois National Bank & Trust Company of Chicago

Val B. Diehl*
President and Chief Operating Officer

Kenneth C. Foster**
Former President, The Prudential Insurance Company of America

Dr. Helen A. Guthrie
Professor of Nutrition Pennsylvania State University

Robert W. Haack‡
Director of various corporations, Former Chairman of the Board, Lockheed Aircraft Corporation and former President of the New York Stock Exchange

James L. Hayes‡
President and Chief Executive Officer, American Management Associations, Inc.

Charles E. Hugel
President and Chief Executive Officer, The Ohio Bell Telephone Co.

Morris L. Levinson
President, Associated Products, Inc., a Nabisco subsidiary

Don G. Mitchell*‡
Director of various corporations

William H. Moore*
Director and former Chairman of the Board, Bankers Trust New York Corporation and Bankers Trust Company

Dr. Albert E. Rees
Professor of Economics Princeton University

Matthew B. Rosenhaus*
Vice Chairman of the Board

Robert M. Schaeberle*
Chairman of the Board and Chief Executive Officer

Perry M. Shoemaker**
Transportation consultant

William C. Turner
Advisor and Director of various corporations

James O. Welch**
Corporate Director

**Member of the Executive Committee*
***Member of the Audit Committee*
‡Member of the Compensation Committee

Office of the Chairman

Robert M. Schaeberle
Chairman of the Board and Chief Executive Officer

Matthew B. Rosenhaus
Vice Chairman of the Board

Val B. Diehl
President and Chief Operating Officer

Warren J. Robertson
Executive Vice President—Administration

Group and Senior Vice Presidents

David F. Bull
Group Vice President

Richard S. Creedon
Group Vice President

Robert J. Jones
Group Vice President

C. Richard Owens
Senior Vice President

Edward P. Redding
Group Vice President

Robert L. Sanford
Senior Vice President

Corporate Vice Presidents

J. Stewart English
Corporate Development

Richard H. Gavoor
Controller

Walter S. Halliday, Jr.
General Counsel

Henry L. Henderson
Technology

John B. McGovern
Personnel Relations Public Affairs

Carl R. Pilz
Purchasing

Claude B. Hampton
President, Biscuit Division

Robert J. Powelson
Assistant to the President

Paul L. Snyder
Chairman, Freezer Queen Foods, Inc., a Nabisco subsidiary

William J. Tobin
President, Food Services Division

James O. Welch, Jr.
President, Special Products Division

Kenneth M. Hatcher
Secretary

Edward J. Matthews, Jr.
Treasurer

Principal Operations

U.S. Foods

Atlanta, Georgia (Cookies, crackers)
Beacon, New York (Printing plant)
Bridgeview, Illinois (Pet foods)
Buena Park, California (Cookies, crackers, snack foods)
Buffalo, New York (Frozen foods)
Buffalo, New York (Pet foods)
Cambridge, Massachusetts (Candy)
Carthage, Missouri (Flour mill)
Cheney, Washington (Flour mill)
Chicago, Illinois (Cookies, crackers, pretzels, toaster pastries)
Danville, Illinois (Candy)
Dayton, Ohio (Ice cream cones)
Denver, Colorado (Pet foods)
Evanston, Illinois (Machine shop)
Fair Lawn, New Jersey (Cookies, crackers)
Fair Lawn, New Jersey (Research and development)
Houston, Texas (Cookies, crackers)
Los Angeles, California (Candy)
Mansfield, Massachusetts (Chocolate, candy)
Marseilles, Illinois (Boxboard mill and printing plant)
Minneapolis, Minnesota (Cereals)
Morristown, Indiana (Textured vegetable protein)
Naperville, Illinois (Cereals, cake mixes)
Niagara Falls, New York (Cereals)
Oakland, California (Cereals)
Philadelphia, Pennsylvania (Cookies, crackers)
Pittsburgh, Pennsylvania (Cookies, crackers, snack foods)
Portland, Oregon (Cookies, crackers, ice cream cones)
Richmond, Virginia (Cookies, crackers, pretzels)
St. Louis, Missouri (Crackers)
Toledo, Ohio (Flour mill)
Tualatin, Oregon (Pet foods)
Woodbury, Georgia (Pimientos, dates, steamed breads, peanuts)
Wrightstown, Wisconsin (Cheese spreads)

International Foods

EUROPE

Denmark
Oxford Biscuit Fabrik A/S (Cookies, crackers)

England
Nabisco Limited:
Nabisco Foods Division (Cereal)
Nabisco-Frears Biscuits Division (Cookies, crackers)

France
Biscuits Belin, S.A. (Cookies, crackers)
International Training and Research Center (Training and research)

Germany
B. Sprengel & Co. (Candy)

Italy
Saiwa, S.p.A. (Cookies, crackers, candy)

Spain
Galletas Artiach, S.A. (Cookies, crackers)

CANADA

Christie, Brown & Company, Limited (Cookies, crackers, cereal, pet foods)

AUSTRALASIA

Australia
Nabisco Pty., Limited (Cookies, crackers, cereal, pasta)

Japan
Yamazaki-Nabisco Co., Limited (Cookies, crackers)

New Zealand
Griffin & Sons Limited (Cookies, crackers, candy)

Republic of South Africa
Pyott, Limited (Cookies, crackers)

LATIN AMERICA

Dominican Republic
Tamara, C. por A. (Cookies, crackers)

Nicaragua
Industrias Nabisco Cristal, S.A. (Cookies, crackers)

Mexico
Nabisco—Famosa, S.A. (Cookies, crackers, pasta)

Puerto Rico
Arbona Hermanos Division, Nabisco International, S. A. (Cookies, crackers)

Venezuela
Nabisco-La Favorita C.A. (Cookies, crackers)

Toiletries and Pharmaceuticals

Booneville, Arkansas (Combs)
Cranford, New Jersey (Toiletries, pharmaceuticals)
Venice, California (Toiletries)
Lamco A/S, Denmark (Toiletries)
The J.B. Williams Co. S.A., France (Toiletries)
The J. B. Williams Co., Canada (Toiletries)

Household Accessories

Brooklyn, New York (Shower curtains, table cloths)
Cape May, New Jersey (Fabrics)
Closter, New Jersey (Fabrics)
Gardena, California (Shower curtains, table cloths)
Landers & Cia. S.A., Colombia (Housewares)

Corporate Data

Principal Exchanges
New York
Midwest
Pacific
Amsterdam
Paris

Ticker symbol: NAB

Transfer Agents
Bank of New York
90 Washington Street
New York, N.Y. 10005

The First National Bank of Chicago,
One First National Plaza, Chicago, IL 60670

Crocker National Bank,
Corporate Division
P.O. Box 38005
San Francisco, CA 94138

Registrars
Bank of New York
90 Washington Street
New York, N.Y. 10005

The First National Bank of Chicago,
One First National Plaza, Chicago, IL 60670

Bank of America,
Corporate Agency Division
Box 37002
San Francisco, CA 94137

Debentures Trustees
Bankers Trust Company,
16 Wall Street,
New York, N.Y. 10015

Morgan Guaranty Trust Company of New York,
23 Wall Street,
New York, N.Y. 10015

Auditors
Coopers & Lybrand
1251 Avenue of the Americas
New York, N.Y. 10020

Shareholder Information
Current shareholders are requested to address all questions concerning their securities or dividends, as well as requests for proxy materials, address changes, or other shareholder information, to the Corporate Secretary, Nabisco, Inc., East Hanover, N.J. 07936, or by telephone, (201) 884-0500.

Availability of Form 10-K
In the opinion of management, the Financial Statements in this Annual Report to Shareholders include substantially all financial data in the Annual Report Form 10-K, filed with the Securities and Exchange Commission.

However, the Company's Annual Report Form 10-K is available on request without charge from the Director, Investor Relations, Nabisco, Inc., East Hanover, N.J. 07936, or by telephone, (201) 884-0500.

Nonfood products and pet foods

Nabisco, Inc., East Hanover, N.J. 07936 (201) 884-0500

NABISCO, INC.

First Quarter
and 1978
Shareholders'
Meeting
Report

NABISCO, INC.

The 80th Annual Meeting of Nabisco shareholders took place on Monday, May 1, 1978 in the Trianon Ballroom of the New York Hilton Hotel, New York, N.Y. More than 84 per cent of the company's common stock was represented in person or by proxy and approximately 500 persons were in attendance.

Presiding over the meeting was Robert M. Schaeberle, Chairman of the Board and Chief Executive Officer. Seated at the speakers' table with Mr. Schaeberle were Val B. Diehl, President and Chief Operating Officer; Walter S. Halliday, Jr., Vice President and General Counsel; C. Richard Owens, Senior Vice President and Chief Financial Officer, and Kenneth M. Hatcher, Secretary.

Also in attendance were members of the Board of Directors and Officers of the Company.

Included in this report are: 1) an important notice regarding the two-for-one stock split approved by the shareholders; 2) digests of the formal statements of the Chairman and the President; 3) a summary of the most significant questions addressed to the chair and the responses; 4) a summary of the business of the meeting; and 4) a report of sales and earnings for the quarter ended March 31, 1978.

Additional copies of this report may be obtained from:

Kenneth M. Hatcher, Secretary
Nabisco, Inc.
East Hanover
New Jersey 07936

ANNOUNCEMENT OF COMMON STOCK SPLIT

At the annual meeting on May 1, 1978, the shareholders approved the proposal to split the common stock on a two-for-one basis.

The split became effective on May 2, 1978 and each share of the par value of $5 held of record at the close of business on that day became two shares of the par value of $2.50 each.

PLEASE HOLD YOUR PRESENT COMMON STOCK CERTIFICATES—DO NOT DESTROY THEM OR RETURN THEM TO THE COMPANY

The $5.00 par value certificates you now hold are valid and will automatically represent shares of the new $2.50 par value. You will receive one additional share for each share you held of record at the close of business on May 2, 1978.

ADDITIONAL CERTIFICATES WILL BE MAILED ON JUNE 1, 1978

Our transfer agent, The Bank of New York 90 Washington Street, New York, N.Y. 10015 will inscribe and mail all the new certificates. Owing to the large number of certificates to be processed, the above date is the earliest mailing date on which certificates can be forwarded. The new certificates will be sent by insured first-class mail. Please watch your mail soon after the above date for the envelope containing your additional stock certificates.

ROBERT M. SCHAEBERLE
Chairman and Chief Executive Officer

At our Annual Shareholder's Meeting in recent years, management has reviewed the highlights of your Company for the previous year and commented on results for the first quarter of the current year which ended on March 31st.

Mr. Diehl and I will follow that format again today. I will review the general Corporate results—and then Mr. Diehl will highlight some of our major operating division activities.

Following that, we will comment briefly on the first quarter of 1978, the immediate outlook, and then open the meeting up for your questions and recommendations.

Normally, our opening remarks today would concentrate on the fact that Nabisco had record sales and earnings in 1977. That is the highlight—but first let me comment on two aspects of our 1977 Annual Report.

... First—we have greatly expanded our reporting this year to give additional details on the sales and operating profits of our major business segments. This data is now shown for. . . .

a. U.S. Food
b. International Food
c. Toiletries and Pharmaceuticals
d. and—Household accessories

... In addition, our results are also shown by geographical area—

a. U.S.
b. Europe
c. Canada
d. Australasia
e. and—Latin America

We believe these analyses will further enhance a better understanding of the businesses in which Nabisco participates.

... Secondly—in addition to showing many of our popular consumer products from around the world, we have included five special pages on what we believe are basic strengths of Nabisco.

—MARKETING
—RESEARCH
—OPERATIONS
—PURCHASING—and
—INTERNATIONAL

For some 80 years Nabisco has been sharpening its consumer products expertise and strong marketing management to provide . . .

a. the best products—(the names known so well to you and your families)
b. more attractively packaged and displayed
c. promoted through tasteful and meaningful advertising
d. and—providing "that something new and exciting" so important to continued consumer acceptance and solid growth.

As you know, that red Nabisco corner seal does mean quality and value to consumers. This strength has already garnered for Nabisco the Number One position for our baked products, worldwide.

Robert M. Schaeberle

Marketing alone could do little. We are, in addition, conducting extensive and continuing research into ingredients, nutrition, equipment and new product development. In Fair Lawn, New Jersey we have some 265 experienced personnel in our Research Facilities constantly working on these new developments and on maintaining our high standards of product quality.

This coupled with our very modern food processing facilities—second to none—and the tremendous purchasing experience and flexibility we bring into today's changing and fast-moving markets, undoubtedly were the significant contributory factors to our 1977 record year. We do hope you will read these pages in our report, for these same strengths are with us as we start out on our 81st year.

In April 1977 at our Shareholders' Meeting in Atlanta, Ga., we reported to a fine gathering of our shareholders from that area, record sales and earnings results over the year 1976. This year—for 1977 we also have reported new record highs to $4.86 per common share —compared to $4.82 in 1976. This $4.86 per share was after absorbing a non-recurring charge of $.76 per share related to discontinuance of XOX-Nabisco, our cookie and cracker operation in West Germany and the decision to sell Aurora, our toy and game operation.

The most important way to review our operations for the year, is to recognize that our increase in net income from the prior year after excluding the non-recurring charges and credits in both 1977 and 1976 amounted to approximately 20%. This is a good growth rate and reflects the reason for our confidence in the continued performance of the basic businesses that make up Nabisco.

Our increased earnings in our on-going divisions resulted from:

a. very successful marketing programs,

b. some tonnage volume gains,

c. selective price increases to cover higher operating costs,

d. increased productivity—and,

e. significantly improved results from our International units.

Sales dollars at 2.1 billion showed a 5% increase—on a restated basis to exclude the Aurora sales, from both years. However, adjusting the sales for the impact of discontinuing XOX in mid-year, foreign currency rate changes and other factors, the 1977 sales, on a comparable basis would have shown an 8% increase.

As you know from current press releases, foreign exchange adjustments have had a major negative impact on many large companies—both sales and earnings-wise. Fortunately, Nabisco has not experienced these same fluctuations to any great degree.

It has been and will continue to be our practice to minimize our foreign exchange exposures by entering into formal foreign exchange contracts limited only by the unavailability of some currencies. Essentially, what this means is that we will reduce our exposure in countries where we have significant operations through internal mechanisms by . . .

a. accelerating or slowing down payments,
b. borrowing locally, or
c. accelerating dividend payments.

Then, to the extent that we are unable to eliminate the exposure through these means, we will buy or sell foreign currency futures contracts equal to the exposure. There are a few countries where it is very difficult to trade the currency, nevertheless, the numbers you have seen in our Annual Report over the last three or four years have indidated that our program has been successful, and we have been able to maintain a net foreign exchange gain or loss within $1 to $2 million of zero, plus or minus and over the past five years has shown a net gain of approximately $1 million.

On pages 4 and 5 of our 1977 Annual Report you will note our informal discussion on areas of direct interest to Nabisco and our future plans. You will see our policies and plans relating to . . .

a. Energy
b. Advancement of women and minorities
c. Technological developments
d. Nutrition—and our
e. General philosophy on organizational structure

We will be pleased to discuss any of these further with you during the question and answer period to follow.

Let me comment for a minute on our decision to divest ourselves of the Aurora toy

and game business and our cracker and cookie operation in West Germany. Both of these operations—while currently in loss positions—projected future break-even levels and eventual profitable operations. However, the time frame was too far in the future. Naturally, there is always added risk in rapidly improving such situations. We decided it best to stop the current losses—take a one-time charge as we did last year—and put management in a much better position to concentrate its efforts on the successful operations—including our commitment of personnel—plant—and financial resources. We will continue to evaluate all of our operations to assure effective use of our management talents on the more profitable opportunities. This applies to both current divisions and any new association possibilities.

In last year's meeting, we made mention of substantial improvements in the Balance Sheet of Nabisco. So for a moment, let me again direct your attention to this important statement that sets out the details of financial position of a company as at a specific date—in this case—of course, December 31, 1977.

Looking at our Balance Sheet, a number of good things have happened. Short-term debt was further reduced in 1977 to less than $13 million at year-end from a high in 1974 of $174 million. In fact, at year-end, domestically, Nabisco had no short-term debt. Working capital increased $52 million to $287 million. Our current ratio improved from the prior year (2.06:1, up from 1.82:1) and our debt-to-equity ratio has improved to 30% from 33% at the end of 1976. These results were not unexpected. We, like many other corporations, have put into place very stringent inventory and accounts receivable control programs over the prior years. We are now also experiencing the cash flow benefits of increased depreciation charges resulting from the fairly high level of capital expenditures of recent years, plus reduced 1977 tax liabilities due to our actions in West Germany. With the relatively favorable outlook for stability of our material costs, we're confident that our internally-generated funds will exceed the combined level of dividend payments and our capital expenditure program.

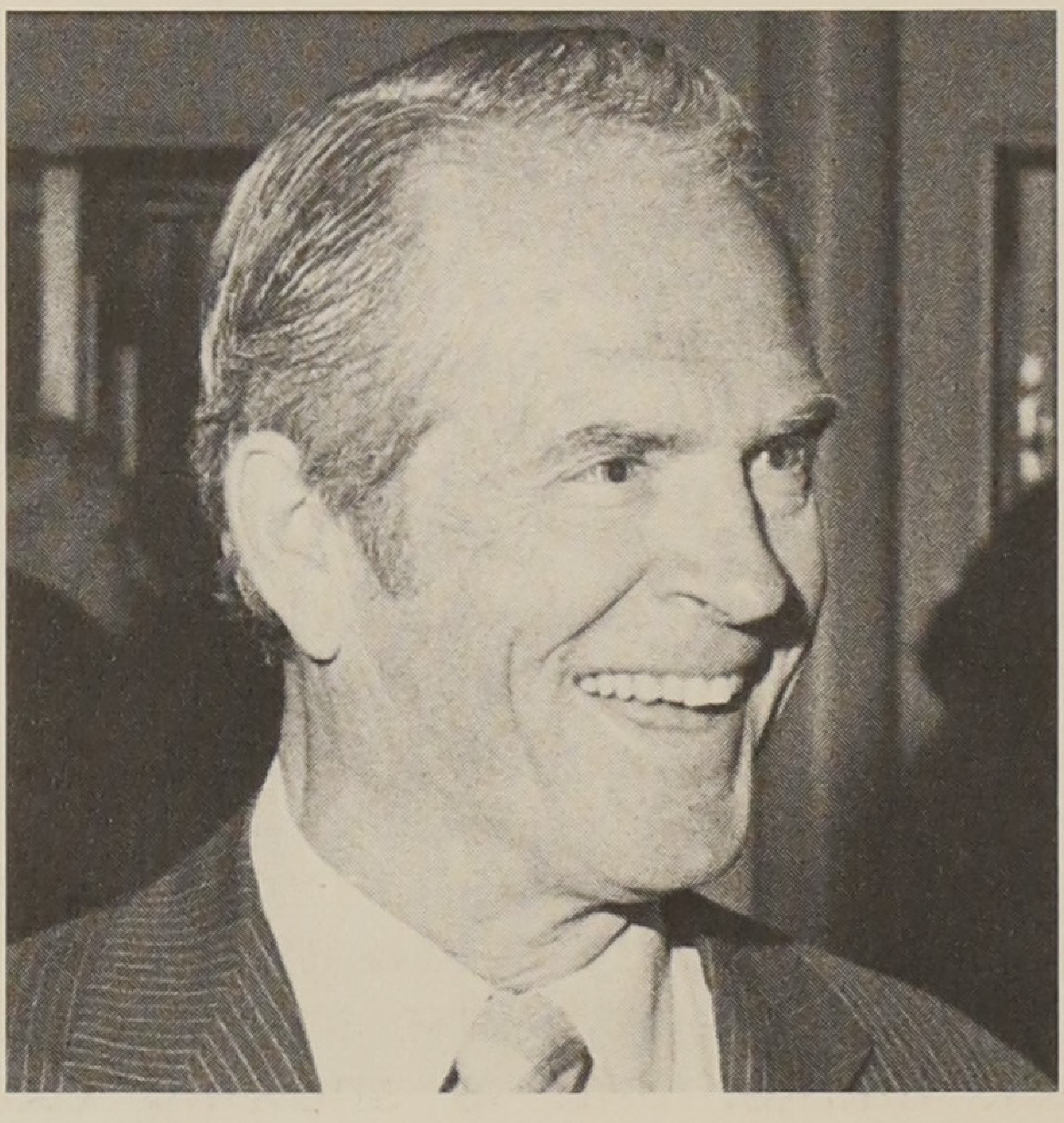
Therefore, as of today we do not see the need for additional long-term debt in the near term, and we are further confident that the current ratio, the debt-to-equity ratio, our return on assets and return on equity ratios should continue to show improvements.

As we have moved through 1977, we have reported fine progress in many areas—and this is very important because we ended on a very strong sales and earnings note. While sales were slowed at the start of 1978 because of abnormal weather conditions and the coal strike, we are confident of healthy programs for the year 1978.

Prior to a few comments on 1978, let me ask Mr. Diehl to highlight the results of our specific operating divisions in 1977.

VAL B. DIEHL
President and Chief Operating Officer

I am sure you can sense from Mr. Schaeberle's remarks that we have entered 1978 with a spirit of confidence and optimism based on the very solid progress made in 1977 in many areas.



Val. B. Diehl

Solid—because it was based on:

a. The performance of capable, experienced managers in our many operating units.
b. The good sales trends on many of our

older line products, as well as successful new ones.

c. The improved efficiencies in our manufacturing operations led by the Richmond Bakery, our newest biscuit production unit, showing record pounds per labor hour figures.

d. The effective marketing programs which have given us these results.

To talk specifically about our various operating units, first the U.S. Biscuit Division, the largest operating unit within the company. Sales in the Biscuit Division last year exceeded 1 billion dollars—finishing an excellent year with an improved market share in a competitive market. Of all Nabisco's products, you are perhaps most familiar with the products being marketed by this division; such brand leaders as PREMIUM Saltine Crackers, RITZ Crackers, OREO Sandwich Cookies, and TRISCUIT Whole Wheat Wafers. This past year two new highly successful snack crackers were introduced—BACON 'N DIP and CHEESE SWIRLS. We hope you have had an opportunity to try them.

The improving market position of this division has provided the basis for increased advertising expenditures and merchandising activities. These coupled with the strength of a 3000-man sales force and a direct to the retailer delivery system, gives this division an envious position in the food industry in this country.

Within the Biscuit Division—a new Snack Foods Department got underway in 1977. The major products are snacks packed in large, attractive flexible foil bags. Such items as CHIPSTER Potato Snacks, DIGGER Corn Snacks and others. These products will be distributed nationally before the end of 1978 and will add greatly to the sales potential in a snack market that is showing excellent growth.

So much for the U.S. Biscuit Division . . .

Our Special Products Division—the division that markets ready-to-eat cereals such as SHREDDED WHEAT, TEAM, NABISCO 100% BRAN, also DROMEDARY products, and MILK BONE Dog Biscuits, we are pleased

to report recorded a third consecutive year of record operating performance.

SPD's share of the ready-to-eat market was up slightly. There was a substantial gain in tonnage on CREAM OF WHEAT Hot Cereal and MILK BONE Dog Biscuits continues to be a market leader.

The RIVAL canned dog food line on the other hand was under pressure in a depressed market situation.

Sales trends for the Special Products Division are strong to date this year.

Next, our Food Services Division which serves institutional food distributors who in turn reach more than 50,000 accounts, restaurants, hospitals and plant cafeterias. Food Services continues to be the fastest growing U.S. division with sales and profits coming in at record levels. We see great prospects for continued growth in the food service area, and we have plans to expand our participation.

Touching on some of our other domestic divisions—the Confectionery Division in Cambridge, Mass. marketing SUGAR DADDY'S—JUNIOR MINTS and a market leader, the CHUCKLES line of soft jellies. It turned in slightly lower unit volume in a total confection market that has been showing decreased per capita consumption figures for the past few years.

High cocoa prices continued to affect the margins in the Confectionery Division. Overall performance, we believe, is best judged by the improved market share position the division attained in 1977.

Another U.S. food division—Freezer Queen, headquartered in Buffalo, marketing frozen meat entrees showed lower operating results last year, operating in a market with severe price competition.

We believe that new product lines under development, along with certain management changes, and new marketing programs will bring this division into a better operating position in 1978.

Moving away from food products—but still in the U.S. . . .

The J. B. Williams Company showed a substantial volume increase in 1977, with the expansion of the ROSE MILK line to include face cream and face lotion. J. B. Williams' product lines consist of such market leaders as SOMINEX, GERITOL, AQUA VELVA and others. Late last year J. B. Williams put on the market a new powdered protein product with vitamins and minerals to be used for weight control. The product is called P.V.M. (You probably are seeing adds on T.V.) It is not to be confused with liquid protein products and is designed to be a two-meal replacement. In the morning to be mixed with orange juice and at noon with milk—followed by a full meal in the evening. This product was designed in consultation with the medical profession and nutritionists at a leading university. Perhaps you are not as aware that Nabisco is also in the household accessories business and Hygiene Industries, a division of Associated Products, Inc., is the leading producer of shower curtains in this country. Hygiene enjoyed an excellent year in 1977.

Another company—Everlon Fabrics Corp., a subsidiary of Associated Products, Inc., —produces knitted curtains. Everlon showed substantial improvement in sales and operating income during 1977; we see continued progress for these two units in 1978.

Now to talk about our food business outside the U.S. The past several years have brought a definite upward trend in the operating results achieved in the international area. In spite of the many difficulties in operating overseas, including inflation, Government controls, and currency devaluations, our results, both sales and profits, continue to improve and now make a very worthwhile contribution to the total company results.

Investments made in plant, management and distribution systems in recent years, are now bringing returns as we are establishing solid positions in many overseas markets. We expect this healthy trend to continue.

Our Canadian biscuit business, under the "Christie" label, consists of a line of crackers and cookies very comparable to the U.S. Biscuit Division. Cereals and pet foods similar to those of our U.S. Special Products

Division are marketed by Nabisco Foods Division. In Canada, market shares for both lines of products, however, exceed those of the U.S. company.

As you know, Canada continued under wage and price controls in 1977. While operating results were lower, market shares were improved. We anticipate the lifting of controls by the end of 1978 and this will provide us much greater flexibility. Time will not permit me to comment on all the 15 operations in the International Division. I will therefore only touch on some of the major happenings. . . .

Biscuits Belin in France—with bakeries near Paris and in Chateau-Thierry produces some of the finest quality products in the company, of course designed to please French tastes. This company has a leading market position with snack crackers, and chocolate coated biscuits and is the largest of our European biscuit companies. It turned in a record performance in 1977.

In the United Kingdom—Nabisco Ltd. marketed a new wheat germ cracker under the brand name of "HOVIS" (The name of the best selling whole wheat bread in the U.K.) This product has already achieved a level of sales exceeding RITZ crackers in the United Kingdom. To put that in perspective, RITZ crackers are the largest volume items we have on a world-wide basis. We will be doing consumer research to determine in what other countries this attractive product might be marketed.

In Italy—our company Saiwa S.p.A.—continues to expand and is presently completing an addition to the modern bakery at Milan to provide additional capacity of PREMIUM Saltine Crackers. In Italy, PREMIUMS are used as a bread substitute and PREMIUM Saltine sales are the best there anywhere outside the U.S. and Canada.

In Australia—we now have a very worthwhile position in the cereal business and in the biscuit business, and have moved well away from a loss position only a few years ago, into a solid profit position.

We have been in Latin America since the early 50's and have well established profit-

able businesses in Mexico, Venezuela, Puerto Rico, Nicaragua, and more recently in the Dominican Republic. Good operating results were achieved last year in spite of controls, and labor problems in some areas.

In Venezuela we have broken ground for a new bakery to be completed in 1979.

During 1977 we accepted a minority position in both Venezuela and Mexico in order to be in a position to get the necessary government approvals required to continue the expansion of those businesses. Other than the small change in share holdings our conduct of the business and relations with our partners remains unchanged.

The star of the International Division the past several years has been our operation in Japan—Yamazaki-Nabisco.

This company was doing only about $7 million, six years ago, and last year exceeded $100 million. It is a 50% joint venture and is managed by our Japanese partners; we have one American there.

One of the first products marketed in Japan was RITZ Crackers and in a short time they reached a volume exceeded only by the volume of RITZ sales in the U.S. The successful establishment of RITZ has now been exceeded by an even greater volume with a product called CHIP-STARS, a fabricated potato chip which is #1 on the Japanese market. Yamazaki-Nabisco is the fastest growing company in the markets in which it participates in Japan, and we look for another outstanding performance in 1978.

Overall the outlook for further improvement in International Division's Sales and profits is very bright indeed. Forecasts indicate the International Division should be our second most important profit center in the next few years (second only to the U.S. Biscuit Division). When we combine this most favorable trend with the consistently strong performance of our U.S. Biscuit and Special Products Divisions, and certain other domestic units, we are indeed optimistic about the prospects for future growth for Nabisco.

As our volume increases in various areas, we are constantly aware of the need to keep

our manufacturing facilities in top shape in order to realize improved productivity and to incorporate the latest technology not only for more efficient operations but to be able to realize the energy savings that are so necessary these days.

In 1977 our capital expenditures were at $55 million—about the same as 1976 and most of this money was spent to modernize and expand product facilities. In the U.S. this consisted of new lines for cookies, crackers, cereal and pet foods. In Canada, a new production line was installed for SHREDDIES—our high volume—high share of the cereal market. In Denmark and in Italy, we are expanding our biscuit plants to meet capacity requirement. In 1978, capital expenditures are forecast to move up to the $70-$80 million area and includes a number of new ovens and packaging equipment for crackers and cookies. Completion of a new pet food line, and some new distribution facilities in the U.S.

In the energy field we established a Corporate Energy Department last year to study our requirements in all operating units and to formulate both short and long-term programs. We have been very active in making moves that will assure our operational capabilities. Things like putting backup propane systems at various bakeries to be used in the event of curtailment of natural gas supplies. We also contracted for direct wellhead purchase of gas in Louisiana and arranged for delivery of this gas in periods of shortage, to various bakeries in the mid-west, south and northeast.

We have in place conservation programs that are working, giving us savings that will enable us to meet the 14% goal established for our industry by 1980.

We are studying alternative technologies to produce our products.

All in all, we are confident we will be in a favorable position for the future.

This concludes my operational report. We will be happy to answer any questions you have during the question and answer period.

Thank you for your attention and again, we have every reason to expect another record year for Nabisco in 1978.

Approximately 500 shareholders were in attendance at the annual meeting in New York City.

MR. SCHAEBERLE

Thank you Mr. Diehl. Before opening the meeting to your questions, I would like to comment briefly on the first quarter of 1978.

As you are aware, following our successful sales and earnings for 1977, in January of this year your Board of Directors saw fit to increase the quarterly dividend rate to a new high of 69¢—up from 63¢—or a new annualized rate of $2.76 compared to $2.52. We think this is significant since we recognize our responsibility to shareholders in managing the Company for both growth and a fair return on the shareholder's investment.

This latest increase further expresses our confidence in the continued profitability and growth for your Company. This marks the 80th year of continuous dividends declared by your Company—in other words for every year since 1898, in fact every quarter, Nabisco has returned a dividend to all shareholders.

Speaking of dividends, Nabisco has a dividend reinvestment plan which allows shareholders to add to their Nabisco stock ownership by authorizing us to pay your quarterly

dividends to a bank. In turn, the bank purchases shares of stock in the open market and credits your account for the shares purchased.

Even small dividends are fully invested in fractional shares and the shareholder only pays his proportionate share of the brokerage commission (about 1%) and a small bank service charge.

A further feature of this plan allows you, as a shareholder to send amounts of cash (up to $1,000. per month) to the bank to purchase additional shares of stock.

If you would like any additional information on this plan, you may pick up a brochure from one of your hostesses or ushers as you leave.

The Board of Directors at the same January, 1978 meeting adopted the resolution to bring to the shareholders the proposal to split the number of shares 2 for 1. We believe this action is timely and will serve to broaden the market for our Company's common stock. Shortly we will have the results of your vote on this proposal.

Sales in our first quarter of 1978 were $515 million up a reported 3% over the first quarter of 1977. This increase though would have been even higher since distribution and sales were hindered by the adverse weather in January and February. Also, sales figures for this year do not include sales of XOX-Nabisco which was terminated at the end of 1977 and, as Mr. Diehl pointed out, sales for Mexico and Venezuela are not included in our consolidated figures in 1978 since we now have a minority position in each of these countries. While the sales are not included their earnings are reflected in our total earnings figures.

Our earnings for the quarter were $20.9 million or $1.30 per share, an increase of 14% over the first quarter of 1977. However we really must consider earnings from on-going operations and when comparing our $1.30 this year to just such on-going operations for last year, the increase reflects a 6% increase.

Offsetting our modest start in the U.S.—

due to weather disruptions, our International Operations came in with handsome increases in both sales and earnings for the first quarter.

With the first quarter record results we believe Nabisco is in a position to turn in a very strong performance for the year.

Overall, these results reflect the fine contributions of our many management teams and their direction of successful marketing programs—for therein lies the heart of Nabisco—a successful and profitable consumer products company.

Shareholder Francis Spratt

QUESTIONS & ANSWERS

(Here is a representative list of some of the questions put to management by shareholders attending the meeting. In several instances, both the questions and answers have been edited in the interests of space limitations.)

Q. Why is there a blank space at the top of the proxy card?

A. The space is provided for your convenience. If you do not want the people named to represent you at the meeting, you may write in a name of your choosing.

Shareholder Florence Burke

Q. Does the stock split mean that the current dividend will be cut in half?

A. If the Board votes to continue the present dividend rate, that rate per share will be cut in half by the two-for-one split. But each shareholder, of course, will receive the same dollar dividend as he will then have twice as many shares.

Q. Of the more than 16 million shares of Nabisco stock outstanding, how many shares are held by company employees?

A. Many of our employees participate in a stock purchase plan, and they hold approximately 1,000,000 shares. In addition, a number of employees own shares purchased outside the plan.

Q. How many Board meetings were held in the past year, and where were they held?

A. We held 11 meetings of the Board last year, monthly except for August, and they are normally held at our headquarters in East Hanover. Attendance in the last year was very good, an average of 93 percent.

Q. How much did the Annual Report for 1977 cost?

A. The report cost a total of $144,000 or about $1.11 per copy.

Q. I would like to ask if the Company's outside auditors (Coopers & Lybrand) ever meet with the Auditing Committee of the Board of Directors?

A. The Auditing Committee meets with Coopers & Lybrand at least twice each year. Topics of discussion include auditor's reports, audit fees, adequacy of internal control, accounting rules and regulations, etc. Coopers & Lybrand also works very closely with our internal auditors.

Shareholder John Gilbert

Q. Why hasn't Nabisco ever added a soft drink to its line of products?

A. In recent years we have market tested two soft drinks and neither one came up to our expectations.

Q. Why doesn't Nabisco hold the Annual Meeting at its World Headquarters in East Hanover?

A. We believe we can attract more shareholders to our meetings if they are held in a large city like New York. Transportation is a whole lot easier for one thing. The headquarters building does not have the facilities to handle this many people.

Q. What has the Company done regarding conversion to the metric system, and what is it going to cost?

ment's reasons for opposing this resolution.

The inspectors reported the following votes had been cast in regard to the proposal on pensions:

NABISCO, INC.

NABISCO, INC. AND

Quarter Ended March 31

Net sales	
Income from continuing operations	
Loss from discontinued line of business	
Net income	
Per share: (b)	
Income from continuing operations	
Net income	
Average shares outstanding (b)	

(a) Restated to reflect Aurora Products Corp. as a discontinued line of business.

In favor 740,165. Against 12,543,288.

No further business was transacted, and the meeting on motion duly adjourned at 4:55 p.m.

CONSOLIDATED SUBSIDIARIES

1978	1977(a)
$515,222,000	$499,350,000
20,878,000	19,746,000
——	(1,361,000)
20,878,000	18,385,000
.65	.62
.65	.58
32,132,000	32,048,000

(b) Per share figures have been adjusted to reflect the 2 for 1 stock split approved by the shareholders on May 1, 1978.